Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill

Bill Number 8-1

Regulatory Impact Assessments

Prepared by Policy and Strategy, Inland Revenue

February 2021

Coversheet: Resurgence Support Payment Supplementary Analysis Report

Advising agencies	The Treasury, Inland Revenue
Decision sought	*Note the analysis in this report.*
Proposing Ministers	Minister of Finance, Minister of Revenue

Summary: Problem and Proposed Approach

Problem Definition **What problem or opportunity does this proposal seek to address? Why is Government intervention required?**
Summarise in one or two sentences
COVID-19 related public health restrictions at Alert Level 2 or above can create short and severe economic shocks. Cumulatively, they stress firm balance sheets and risk delivering unequitable outcomes. The effects of these shocks on firm revenue, coupled with uncertainty of the nature of Government support in the event of a virus resurgence, risks higher unemployment and firm failure as firms are disincentivised from or unable to employ people or invest.

Summary of Preferred Option or Conclusion (if no preferred option) **How will the agency's preferred approach work to bring about the desired change? Why is this the preferred option? Why is it feasible? Is the preferred approach likely to be reflected in the Cabinet paper?**
Summarise in one or two sentences
The recommended approach was to introduce and pre-announce a new one-off Resurgence Support Payment (RSP) available to all firms in the event of an increase from Alert Level 1 to Alert Level 2, 3, or 4. The recommended sub-options were: - To make the RSP available to all firms that experience a drop in revenue of 30% or more over a 14-day period as a result of higher Alert Level restrictions; and - To pay the lesser of: ○ $1500 plus $400 per full-time employee (FTE) (up to a cap of 50); or, ○ Two times the experienced drop in revenue over the 14-day period. These options were preferred because they: - allow businesses to better plan ahead; - meant the RSP would be readily deployable by Inland Revenue in the event it is needed (following the passing of legislation and building the system); - are fiscally sustainable; - cushion the economic blow of higher Alert Levels to firms, limiting scarring effects;

- support the transition up Alert Levels, boosting social licence for public health regulations;
- encourage the shift to a more COVID-19 resilient economy;
- ensure that some low revenue firms do not gain disproportionately from the RSP, in excess of their needs to meet fixed costs and transition costs; and
- target vulnerable but viable firms.

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

Monetised and non-monetised benefits

The RSP will support the national effort to eliminate COVID-19, for the benefit of all New Zealanders.

The RSP provides additional financial support to firms to allow them to continue to meet fixed costs and cover costs associated with an escalation of Alert Levels, and quickly continue operations as soon as Alert Level restrictions allow. In turn, this benefits individuals employed by those firms.

Whilst the Payment is available to all businesses, SMEs are the main financial beneficiaries. This recognises that the vast majority of businesses in New Zealand employ fewer than 50 people, and that smaller firms are less resilient to economic shocks than larger businesses.

However, it is important to recognise that while larger firms are more resilient on average, larger firms can need support too. Not allowing large firms to access this form of support would disadvantage firms just on the cut-off, such as firms with 51 employees. This could make it harder for these firms to survive and may incentivise them to get rid of staff in order to become eligible, which we do not want to encourage. For this reason, the RSP will be available to firms of all sizes.

Where do the costs fall?

Monetised and non-monetised costs; for example to local government or regulated parties

The fiscal costs fall to the Crown, however Treasury analysis suggests the long-term fiscal, economic and social impacts of no action would likely be greater.

What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?

Compressed timelines create policy development, delivery, and communications risks, which could lead to:

- payments being more widely available than is efficient, or being paid to unviable firms, at unnecessary fiscal cost;
- damaging the social capital that is critical for the success of the COVID-19 public health strategy; and
- business confusion around the access to the scheme, meaning firms may lose out on support they are entitled to.

The main mitigations we have undertaken include:

- to agree, via Joint Ministers and Cabinet, detailed design rules in order to enable Inland Revenue to build the scheme at pace with as much certainty as possible;

- a series of measures to boost the integrity of the scheme and minimise gaming risks;
- taking a co-ordinated cross-Government approach to communications;
- engaging with external business stakeholders to inform the design of the scheme and promote its availability, ensuring the widest audiences are reached.

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?
How confident are you of the evidence base?
Evidence drawn on to inform the design of the RSP include: **Regular, detailed qualitative engagement with the business community and monitoring of the effectiveness of existing supports** Evidence was consistent from a diverse range of groups that: - greater certainty about the nature of government support in the event of a resurgence was critical, which led the decision to announce the support would be available in advance of any escalation of Alert Levels; - firm balance sheets in the most affected sectors were increasingly stressed; and - additional debt products were less appropriate. Evaluation of the uptake of the Small Business Cashflow Scheme (SBCS) also evidenced the waning appetite for debt. The Payment was therefore designed as a grant. **Real-time transaction data, which showed the impacts of Alert Level on revenue** - Xero data on revenue drops experienced by firms month-to-month throughout 2020 informed our understanding of Alert Level impacts.[1] - This, alongside information on uptake of the various wage subsidies, allowed us to estimate the number of firms facing significant revenue drops at different Alert Levels and led to the 30% revenue drop test. **Survey data on firms' cost structures and cash reserves** - The Annual Enterprise Survey (AES)[2] provided insight into the fixed, variable, and wage costs usually faced by firms of varying size, allowing us to understand the scale of need when normal revenue streams are disrupted. - This gave quantitative support to insights gathered through stakeholder engagement about the difficulty in meeting fixed costs under higher Alert Level restrictions. - Better 4 Business (B4B)[3] research into firms' cash reserves also echoed messages from stakeholders concerning balance sheet stress and eroded financial resilience. This evidence supported the case for grant-based support. **Modelling and analysis of the macro and microeconomic impacts of Alert Levels on the economy.**

[1] The data provided was anonymised and aggregated to prevent the identification of businesses that are customers of Xero

[2] Carried out by Stats NZ, the AES measures the financial performance and position of New Zealand businesses.

[3] B4B is part of the Ministry of Business, Innovation and Employment. It carries out research on business health. The latest research is available here: https://www.betterforbusiness.govt.nz/resources-2/

- The Treasury prepared estimates of economic activity under different Alert Levels for each industry at regular intervals during 2020, updating the analysis as new data became available. - These estimates were initially assumption-driven, based on macroeconomic data, and were updated as new data (including high frequency indicators and information on the uptake of the Government's financial support) enabled re-examination of previous assumptions. - The Treasury also commissioned modelling of the impacts of border closure and Alert Level settings on sectors and regions of the economy, which was conclusive in demonstrating impacts across all sectors and particularly acute effects on tourism and hospitality firms. This analysis is not yet published.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the Supplementary Analysis Report for the above legislative/regulatory proposal in accordance with the quality assurance criteria set out in the CabGuide.
Quality Assurance Assessment:
A joint Regulatory Impact Analysis quality assurance panel with representatives from the Treasury and Inland Revenue has reviewed the Supplementary Analysis Report "Resurgence Support Payment Supplementary Analysis Report" produced by the Treasury and Inland Revenue, dated 28 January 2021. The panel considers that it **meets** the Cabinet requirements to support its decision.
Reviewer Comments and Recommendations:
No further comments.

Supplementary Analysis: Resurgence Support Payment

Section 1: General information

1.1 Purpose
The Treasury and Inland Revenue are solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing: • stakeholders to be consulted on a government exposure draft of planned legislation (amendments to the Tax Administration Act 1994) • final decisions to proceed with a policy change to be taken by or on behalf of Cabinet

1.2 Key Limitations or Constraints on Analysis

a) *What issues are in or out of scope? e.g., Ministers may already have ruled out certain issues.*

b) *What are the limitations on the range of options considered and the criteria used to assess options?*

The RSP was recommended following direction from the Minister of Finance to deploy a new economic response initiative that was limited in scope to support the transition of viable firms to new economic settings; be flexible to support firms in higher Alert Level settings, be fiscally sustainable; and readily deployable. This limited the options to forms of support that could reach affected businesses quickly, and therefore risk issuing payments to firms who may not always need it. However, the criteria used to assess options indicated that in order to mitigate potential economic scarring effects, and with tight application criteria built in, this was a worthwhile trade-off.

c) *What limitations exist in relation to the evidence of the problem?*

d) *What is the quality of data used for impact analysis?*

e) *What limitations may there have been on consultation and testing?*

The Treasury engaged with a diverse range of business groups throughout 2020, including on the specific design parameters of a new Payment in the run up to preparing the Cabinet Paper.

Those consulted on the RSP design included Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, the Corporate Taxpayers Group, the Chartered Accountants Australia and New Zealand, and Māori and Pacific business leaders.

In addition to the pace with which consultation was undertaken, a limitation of this evidence continues to be the significant uncertainty around global events and changing, potentially unpredictable domestic conditions.

Notwithstanding this uncertainty (which is detailed in the Treasury's Pre-election Economic and Fiscal Update and Half-Year Economic Update publications), the Treasury's assessment of the impacts of Alert Level restrictions on economic activity and the related risks to aggregate firm solvency over potential series of virus outbreaks led to the conclusion that there was a gap in the support available.

This assessment was informed by data from sources including the aforementioned AES, B2B surveys, Xero, and other modelling. The Treasury judges the quality of this data to be both high and comprehensive.

f) *What are the limitations on the assumptions underpinning the impact analysis?*

We assume that patterns of revenue impact experienced by firms are broadly consistent with those seen in periods of elevated Alert Levels throughout 2020. As such, we assume that the take up of the Payment would be broadly in line with that of other forms of COVID-19 financial support tools to date, including the Wage Subsidy (WSS) and SBCS. Whilst the design of the Payment reflects the greater information available than when the pandemic first began, the uncertainty related to the nature of any future COVID-19 outbreak means the impacts may be different each time.

1.3 Responsible Manager (signature and date):

s 9(2)(a)

Jean Le Roux

Transitions, Regions and Economic Development

Growth, Productivity and Services Directorate

The Treasury

28 January 2021

Section 2: Problem definition and objectives

2.1 What is the current state within which action is proposed?

Set out the current state, e.g.,

Nature of the market; Industry structure; Social context; Environmental state.

The Treasury's Pre-election Economic and Fiscal Update provided the context in which the advice on the RSP was developed. The subsequent Half-Year Economic Update was published on 17 December 2020.

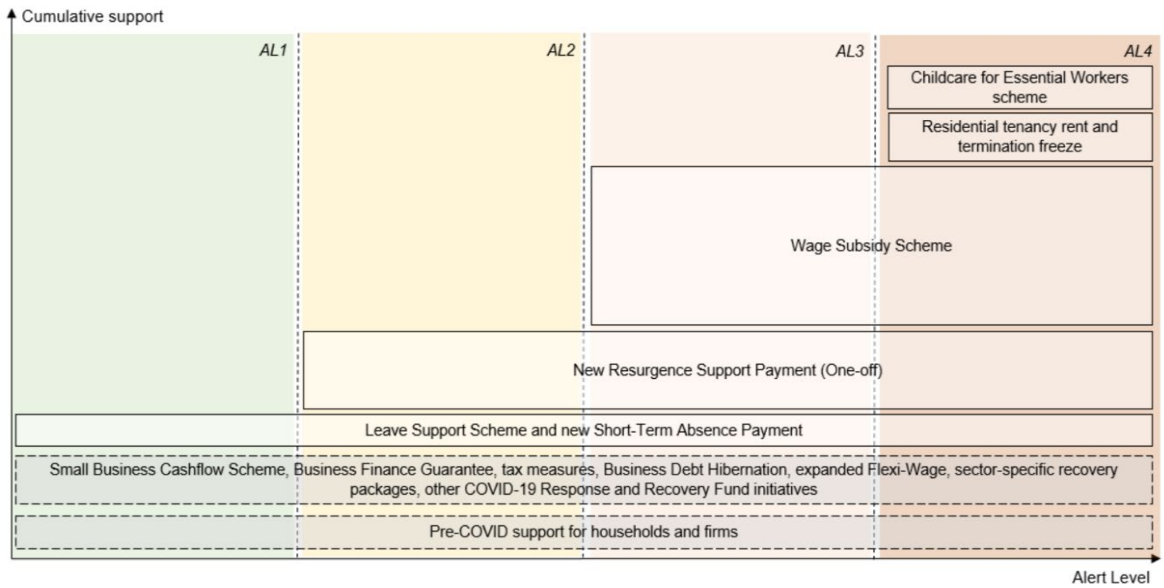
Both documents underline that the COVID-19 pandemic continues to cause widespread economic and social disruption around the world, and the effectiveness and timing of the distribution of vaccines were still unclear at the time of writing.

Both reports present a central scenario wherein New Zealand's border restrictions ease from 1 July 2021 and will lift from 1 January 2022, alongside alternative scenarios attempting to benchmark possible downside scenarios. In the meantime, New Zealanders should be prepared for the potential that whilst most of the economy will operate normally the majority of the time, Alert Levels may temporarily escalate.

2.2 What regulatory system(s) are already in place?

- *What are the key features of the regulatory system(s), including any existing regulation or government interventions/programmes? What are its objectives?*

The below diagram summarises the economic support landscape as of January 2021, including with the addition of the RSP, at different Alert Levels. The suite of interventions support the Government's first overarching objective to keep New Zealanders safe from COVID-19, including by protecting jobs and livelihoods, and strengthening the economy. It does so by ensuring a package of financial support is in place for businesses and individuals in the event of Alert Level escalations following future resurgences of COVID-19 in the community, with the aim of limiting the economic and social impacts if outbreaks occur. It also seeks to reduce the risk of resurgences by supporting workers to stay home when sick. These goals are complementary, as protecting New Zealanders from the virus will also support economic activity resuming quickly after any outbreaks.



- *Why is Government regulation preferable to private arrangements in this area?*

Public health restrictions attempt to provide protection from COVD-19; firmly an intervention that should and could only be undertaken by government. However, the economic costs of the public health restrictions (such as Alert Level changes), land upon individuals and businesses. It is appropriate for government to share some of these costs, consistent with the provision of public goods.

The Treasury's latest estimates that the negative impacts to GDP from Alert Level restrictions (relative to pre-pandemic levels) are:

- -25% to -30% at Alert Level 4
- -15% to -20% at Alert Level 3
- -6% to -10% at Alert Level 2
- -3% to -5% at Alert Level 1.

These are significant impacts with distributional consequences and scarring effects that require interventions at a scale only the Government can provide via broad-based support.

- *Has the overall fitness-for-purpose of the system as a whole been assessed? When and with what result? What interdependencies or connections are there to other existing issues or on-going work?*

Part of the rationale for the introduction of a new RSP at Alert Level 2 was to fill a gap in the support available to businesses as the cumulative impacts of higher public health restrictions added additional stress to balance sheets.

In designing the intervention, officials attempted to achieve consistency between the RSP, WSS and the SBCS, where sensible, so as to reduce business confusion.

This is reflected in a number of the settings proposed above for the RSP, including many of the settings relating to business declarations and business eligibility.

There are other settings that are not in alignment. Some are based on policy grounds, such as the differing revenue drop thresholds under the RSP and WSS reflecting the schemes' different purposes at different Alert Levels. Others are based on the fact that there will be different agencies implementing the schemes, with different system capabilities and different approaches to achieving necessary scheme integrity.

2.3 What is the policy problem or opportunity?

- *How is the situation expected to develop if no further action is taken, and why is this a problem? (This is the basis for comparing options against each other).*
- *What is the nature, scope and scale of the loss or harm being experienced, or the opportunity for improvement? How important is this to the achievement (or not) of the overall system objectives?*
- *What is the underlying cause of the problem? Why cannot individuals or firms be expected to sort it out themselves under existing arrangements?*
- *How robust is the evidence supporting this assessment?*

The estimated negative impacts from Alert Level restrictions (relative to pre-pandemic levels) described in box 2.2 are significant, with distributional consequences and scarring effects that require interventions at a scale only the Government can provide through broad-based support.

We know that Alert Level restrictions have an uneven impact across industries. Industries that find it costly to adapt operations for delivery under Alert Level settings, given the general necessity of in-person, on-site service provision, are under significant pressure. "Essential Services" definitions were used to form a view of which firms were able to operate at the higher Alert Levels. This assessment leveraged off work that was being undertaken by MBIE during the early stages of the COVID response to assess demand for Personal Protection Equipment (PPE) across essential industries, as well as work that was done between Treasury and MBIE on assessing uptake of the WSS.

On top of this, firms suffer from the wider demand-side shocks due to reduced tourism activity, the decline in people movement, and economic conditions. Aggregate demand impacts from border closure particularly reduce demand for tourism-related industries such as accommodation, recreational activities etc. Statistics NZ Tourism Satellite Account information was used to inform a view on which industries were most impacted and the relative importance of international vs domestic tourism.

The Treasury also commissioned modelling of the impacts of border closure and Alert Level settings on sectors and regions of the economy, which was conclusive in demonstrating impacts across all sectors and particularly acute effects on tourism and hospitality firms.

2.4 What do stakeholders think about the problem?

- *Who are the stakeholders? What is the nature of their interest?*
- *Which stakeholders share the Agency's view of the problem and its causes?*
- *Which stakeholders do not share the Agency's view in this regard and why?*

The Treasury engaged with Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, and Pacific, Māori and Iwi business leaders in developing the RSP. Inland Revenue also engaged with the Corporate Taxpayers Group and the Chartered Accountants Australia and New Zealand. Their interest in the Payment was on behalf of business owners and employees throughout New Zealand.

The engagement followed several months of conversations between the Treasury and business stakeholders on the impacts of higher Alert Levels and border settings on different sectors. There was extremely strong consensus from across the spectrum that providing greater certainty on the nature of Government support in the event higher Alert Levels were in place would be critical for businesses to plan and right-size smoothly. The RSP responded to this consistent message.

Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that would address non-wage costs in addition to the costs covered by the WSS.

There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of support available. It was suggested that the communications approach to the package should be accompanied with clear guidance to maximise accessibility of the schemes, and partnerships with trusted community channels would aid access to the schemes and be critical in helping SMEs – which would likely be most vulnerable – prepare now for future outbreaks. Officials are using this feedback to inform the communications strategy.

2.5 What are the objectives sought in relation to the identified problem?

- Objectives must be clear and not pre-justify a particular solution. They should be specified broadly enough to allow consideration of all relevant alternative solutions.
- Where there are multiple policy objectives it should be clear how trade-offs between competing objectives are going to be made and the weightings given to objectives – not just those in direct conflict.
- For further guidance, see 2.3 of the Guidance Note on Best Practice Analysis https://treasury.govt.nz/sites/default/files/2018-03/ia-bestprac-guidance-note.pdf

The purpose of the RSP is to provide support for businesses' to meet fixed costs and costs when transitioning from Alert Level 1 to Alert Level 2 or above, in a fiscally sustainable way. The objectives, which formed the criteria against which different options were assessed, are as follows:

a) Support firms to maintain viability and employment levels across escalations in public health restrictions;

b) Support firms to pay fixed costs (such as rent) if they are struggling to do so as a result of escalated Alert Levels;

c) Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

d) Encourage the shift to a COVID-19 resilient economy.

This required the following scheme attributes, which informed the selection of options (see section 3):

- Resilience to different public health scenarios
- Providing business certainty, so firms can better plan ahead
- Complementarity with existing schemes; and
- Fiscal sustainability.

Trade-offs

In order to support firms to maintain viability and employment levels (objective (a)), there will necessarily be payments made to some firms who would survive anyway, and others that may not have been viable in the medium term (see objective (d)). However, from a fairness perspective, there is a case to equally share the cost of the exogenous shock provided by the pandemic (c). The critical weighting here is in favour of mitigating scarring economic effects for the long-term benefit of all New Zealanders, and designing a scheme that is resilient / can pay out quickly (see box 3.1). The Payment was therefore designed to be available to all firms but with design features built in to target the most affected and those with the fewest resources to respond to the restricted market settings created by higher Alert Levels.

Section 3: Option identification

3.1 What options are available to address the problem?
• *List and describe the key features of the options. Set out how each would address the problem or opportunity, and deliver the objectives identified.* • *How has consultation affected these options?* • *Are the options mutually exclusive, or do they or some of them work in combination?* • *Have non-regulatory options been considered? If not, why not?* • *What relevant experience from other countries has been considered?*

The first-order options were as follows:

A. Front-loaded WSS-based scheme *Lump sum worth 2 weeks of the wage subsidy paid for every change in AL to firms meeting a 40% revenue drop test, with a labour market attachment requirement:* ***Assessment:*** maintains employment but does not address other costs associated with Alert Level escalation; 40% threshold aligned with WSS but likely too high at Alert Level 2; fiscally expensive.
B. Amended WSS-based scheme *As above, but restricting payments to escalations in ALs only, and allowing only one payment every four weeks.* ***Assessment:*** *potentially less frequent payments may do more to encourage transition, but challenges of option A remain.*
C. Lump-sum AL2+ grant [this was the recommended and agreed approach] *Adapted form of options A&B that is:* *1. Less generous per FTE, with a per-firm and per-FTE component to reflect fixed costs;* *2. Subject to a less onerous revenue drop test, to reflect impact of AL2 on businesses;* *3. Paid every time there is an escalation from AL1 to AL2 or above; and* 4. *Without a labour market attachment condition, but firms would declare they are viable.* ***Assessment:*** *responds to business feedback that more support was needed for fixed costs (e.g. rent); less generous, thereby better facilitating transition and potentially more equitably sharing the cost between Government and the private sector.*
D. Ongoing AL2+ grant *As (C), but paid on an ongoing basis for every week a region or nation is at AL2 or above* ***Assessment:*** *benefits of Option C but less likely to facilitate transition, fiscally expensive.*
E. Time-limited AL2+ grant *As (D), but with a fixed number of weeks that a firm can claim for over the life of the scheme.* ***Assessment*** *similar to (D); greater cushioning provided for firms than (C) but more expensive.*

The Treasury also considered grants directly aimed at hospitality firms and others directly identified in public health regulations as needing to make adaptations in order to meet social distancing and hygiene requirements. This was ruled out due to the considerable boundary issues involved in categorising businesses by strict sectors.

Option **C** was recommended in light of its strengths in delivering the overall objectives described in **box 2.5** above.

The **sub-options** that were consequently considered, which are largely mutually exclusive, are as follows:

The public health settings that would trigger the scheme's activation

Based on the above objectives, we recommended that any new grant scheme should be available to businesses based on an escalation to AL2 or higher. This ties the duration of any payments to the time at which many businesses will continue to face substantial cost from public health restrictions.

In the event that such an escalation is in one region, the case for only starting the scheme in that region was considered.

Regional targeting would pose operational challenges – for example, firms that are registered in a different place to their economic activity, or subject to spillovers from restrictions in a neighbouring region. Those challenges mean that regional targeting will come with hard boundary cases, and would create operational difficulties for IR, though it is technically feasible.

As an alternative, there was an option for Ministers to choose to turn the scheme on nationally or by region in the given circumstance. Given that this could undermine business certainty on the support received, which was a significant part of the policy aim informed by consultation, it was concluded that a commitment to provide the RSP when a region or the country was at AL2 or above would be subject to final Cabinet approval at the time of an escalation event.

Whether to make the support time-limited, or an ongoing grant at certain Alert Levels

The key strategic choice was between supporting firms to adapt to the new restrictions through a one-off or time limited payment, or maintaining as many existing firms or jobs as possible by providing ongoing, certain, support for the remainder of the pandemic. The former approach was judged to best support the objectives, in light of the greater fiscal sustainability associated with one-off payments; likelihood of supporting fewer non-viable firms; and potential to incentivise a transition to new market conditions.

The conditions under which firms would be eligible

Whilst all means of delivering targeted sector or viable firm support are imperfect, on balance, we recommended taking a similar approach to the Wage Subsidy Scheme and relied on a revenue-drop test. This is because:

- It identifies those firms and sectors most affected by AL2 restrictions, whether that is due to the direct impact of public health restrictions or supply chain spill-overs; and
- It is well understood by businesses as a common means of determining eligibility for COVID-19 support measures.

The alternative identified was to specifically target firms that are subject to specific public health requirements by virtue of providing food and drink for on-premises consumption (hospitality). Treasury's judgement, having consulted with delivery partners, is that doing so would be exceptionally challenging to define, audit, or operationalise; would create very difficult boundary issues for businesses to navigate and understand; and would create very high levels of customer contact and confusion.

The means of calculating the grant value

A grant to firms should be fiscally sustainable and ideally account for the fixed costs that firms face which scale relatively slowly with firm size and are hard to adjust quickly (such as rent and utilities), and variable costs that can adjust more quickly (such as wages and the transition costs associated with Alert Level changes).

In order to achieve this, we recommended that a grant value has a fixed and variable component using FTE[4] employees as a measure of firm size and variable costs.

*Grant = base value per firm + (FTE payment * FTE)*

To ensure that some low revenue firms do not gain disproportionately from the RSP, we also recommended a design mechanism whereby the amount of payment is capped at two times the fortnightly drop in revenue that the applicant has signalled in its application. This approach means the amount a firm receives will be the lower of the formula amount ($1,500 plus $400 per FTE) or two times the fortnightly drop in revenue. The Treasury estimated this would save a total of $30-50m in fiscal costs.

We also explored alternative ways of setting a grant relative to a firm's size (for example, on the basis of a firm's revenue or balance sheet), but doing so poses substantial operational challenges and would be more complex for businesses.

Whether to restrict the grant to SMEs.

Larger firms have stronger balance sheets and access to credit and cash buffers, and the value of the payment will be much less material to their business decisions. However, the fiscal impact of providing the RSP to all firms without a cap on FTE was estimated to be relatively low (given that the base value was a substantial proportion of the cost, and there are very few large firms in New Zealand). On balance, it was preferred to cap the amount of the RSP to firms at the equivalent of a payment to firms with 50 FTE, similar to the original design of the Wage Subsidy, which has the benefits of equal treatment in approach to supporting all businesses.

This was also supported by feedback gathered in consultation with stakeholders across the business community, who provided advice that the support would have strongest effect for SMEs.

Have non-regulatory options been considered? If not, why not? What relevant experience from other countries has been considered?

The Treasury explored whether demand-led schemes could be viable to support objectives including (a) and (d) above. It examined the UK's 'Eat Out to Help Out' scheme, which subsidised meals out. It was concluded that the scheme would run counter to the public health goals at higher Alert Levels to subsidise and therefore incentivise eating out.

The IMF's *Policies for the Recovery* published in October 2020 was also considered. The publication recommended fiscal strategies including "cash or in-kind transfers to support transition and target those in need, in the event of partial opening", which supported the case for the approach taken to designing the RSP.

In addition, the Treasury engaged with officials in Australia to share ideas on building support schemes which targeted vulnerable but viable firms.

[4] FTEs are determined in the same way as for the Wage Subsidy and SBCS: a full time worker is one who regularly works 20 or more hours a week. A part time worker is one who regularly works fewer than 20 hours a week. A part time worker is calculated as 0.6 of a full time worker. The total from classifying all employees is rounded up to the nearest FTE.

3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?

3.3 What other options have been ruled out of scope, or not considered, and why?

- *Comment on relationships between the criteria, for example where meeting one criterion can only be achieved at the expense of another (trade-offs)*

Note: sections **3.2 and 3.3 from the original template are combined** as the answers are strongly related.

The desired impacts are directly related to the objectives of the RSP:

a) Support firms to maintain viability and employment levels across escalations in public health restrictions;

b) Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels;

c) Share the cost associated with escalated Alert Levels between Government, firms and across economic sectors; and

d) Encourage the shift to a COVID-19 resilient economy.

It was considered that grant-based support was more likely to support businesses to maintain viability and employment levels than debt-based alternatives, whilst being fiscally sustainable (given the quantum of funding set aside to respond to resurgence events if needed).

Whilst debt based support may help firms manage immediate cash flow issues, it can become restrictive and delay investment in transition as they divert cash from growth activities to financing costs.

Furthermore, firms are likely to be more risk averse than the Crown, which pools risk and has a large balance sheet, a long time horizon, and a public interest perspective.

An additional part of the rationale for the RSP in delivering the above objectives relates to the impacts on social license for the public health response.

Whilst the available evidence demonstrated a broadly high level of compliance with the public health restrictions during the outbreaks in 2020 (for example, traffic flows were much lower as a result of AL3 in Auckland), there was some evidence that the high degree of social capital that supported compliance with the longer national lockdown waned. In addition, at the time of designing the Payment, there was emerging evidence that compliance with restrictions overseas was waning, especially in cases where the economic support was judged to be insufficiently generous to incentivise people to self-isolate rather than work.

It was concluded that economic response measures can play a key role in maintaining ongoing social license for public health restrictions, both in compensating individuals for their compliance with restrictions, minimising the impact on jobs and economic wellbeing, and reinforcing social solidarity. Whilst this is a difficult impact to measure and accurately attribute to economic support, the counterfactual would be a significant risk to the health and wellbeing of all New Zealanders.

Section 4: Impact Analysis

Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2? *Add or subtract columns and rows as necessary.*

Second-order design choice (see also box 3.1)		**Association with AL settings**		**Payment format**		**Eligibility**		**Firm size**	
	No action	Pay on escalation to AL2 or higher	Pay businesses in an affected region or sector only	Ongoing throughout duration of AL	One-off, scaled to normal revenue levels	Revenue drop test	Firms subject to specific public health requirements	All firms but cap support at 50 FTE	No cap on FTE
Maintain viability and employment levels when ALs increase	**0**	++ Scale of firms supported limits scarring effects	+ Targeting intention likely to encounter significant boundary issues (e.g. ignores supply chain interdependencies)	++ Greater fiscal generosity likely to assist labour attachment and maintain firm viability.	+ May not be enough in light of prolonged impacts of higher ALs	++ All affected firms benefit; boundary cases diminished	+ Targeted approach supports most affected by public health Orders, but with boundary and administrative issues	++ Firms with <50 FTEs make up vast majority of NZ businesses.	+ Marginal impact diminishes with marginal increase in FTE as larger firms likely to have stronger balance sheets and access to credit/cash buffers.
Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels	**0**	++ Reflects the evidence that higher ALs have significant impacts on most firms' revenue.							
Share the cost associated with escalated Alert Levels between Government, firms	**0**			+ Risks delaying firms' transition to new market conditions if	++ Limiting support encourages firms to plan ahead	++ Reflects that smaller businesses have fewer resources to		++ Reflects that smaller businesses have fewer resources to	

and across economic sectors;				Government pays indefinitely.	and right-size to reflect new market conditions. The suggested formula approach is fiscally sustainable and scaled according to need.	address the costs		address the costs	
Encourage the shift to a COVID-19 resilient economy	**0**	++ Smooths the path to new market conditions whilst mitigating scarring effects.	+ Boundary issues mean some firms may benefit from a smoother transition than others, which raises questions of fairness.			++ Smooths the path to new market conditions whilst mitigating scarring effects.	+/- Boundary issues mean some firms may benefit from a smoother transition than others, which raises questions of fairness.	++ Reflects that smaller businesses have fewer resources to shift to new market conditions without significantly reducing employment	
Overall assessment		++	+	+	++	++	+/-	++	+

Key:

++	much better than doing nothing/the status quo
+	better than doing nothing/the status quo
0	about the same as doing nothing/the status quo
-	worse than doing nothing/the status quo
- -	much worse than doing nothing/the status quo

Section 5: Conclusions

5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

The recommended approach was to introduce and pre-announce a new one-off Resurgence Support Payment available to all firms in the event of an increase from Alert Level 1 to Alert Level 2, 3, or 4. The recommended sub-options were:

- To make the Payment available to all firms that experience a drop in revenue of 30% or more over a 14-day period as a result of higher Alert Level restrictions; and
- To pay the lesser of:
    - $1500 plus $400 per full-time employee (FTE) (up to a cap of 50), or,
    - Two times the experienced drop in revenue.

These options were preferred because they:

- allow businesses to better plan ahead;
- meant the RSP would be readily deployable by Inland Revenue in the event it is needed (following the passing of legislation and building the system);
- are fiscally sustainable;
- cushion the economic blow of higher Alert Levels to firms, limiting scarring effects;
- support the transition up Alert Levels, boosting social licence for public health regulations;
- encourage the shift to a more COVID-19 resilient economy;
- ensure that some low revenue firms do not gain disproportionately from the RSP, in excess of their needs to meet fixed costs and transition costs; and
- target vulnerable but viable firms.

This approach was informed through consultation with Business New Zealand, the Council of Trade Unions, the Auckland Chamber of Commerce, and Pacific, Māori and Iwi business leaders in developing the RSP. Inland Revenue also engaged with the Corporate Taxpayers Group and the Chartered Accountants Australia and New Zealand.

The engagement on the specific design aspects of the RSP followed several months' of conversations between the Treasury and these stakeholders on the impacts of higher Alert Levels and border settings on different sectors. There was extremely strong consensus from across the spectrum that providing greater certainty on the nature of Government support in the event higher Alert Levels were in place would be critical for businesses to plan and right-size smoothly. The RSP responded to this consistent message.

Stakeholders were broadly supportive of the approach to create greater certainty on the landscape of government support, and particularly welcoming of measures that would address non-wage costs in addition to the costs covered by the Wage Subsidy Scheme. There was strong feedback that the integrity of the schemes will be critical, with both Māori and Pacific business leaders raising concerns about possible gaming of support available. It was suggested that the communications approach to the package should be accompanied with clear guidance to maximise accessibility of the schemes, and partnerships with trusted community channels would aid access to the schemes and be critical in helping SMEs – which would likely be most vulnerable – prepare now for future outbreaks. This feedback has fed into the policy design and operational implementation of the Payment.

5.2 Summary table of costs and benefits of the preferred approach

Affected parties *(identify)*	**Comment**: *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts*	**Evidence certainty** *(High, medium or low)*
Additional costs of proposed approach compared to taking no action			
Regulated parties (businesses)	Administrative costs of application and navigating more complex financial support environment	Marginal; not possible to quantify.	High
Regulators	Operational funding required for Inland Revenue	Uncertain; depends on nature of resurgence event.	High
Wider government	Increased complexity of business support landscape across government	Fiscal cost dependent on nature of outbreak. $320m estimated for AL2 nationally; $400m if AL3 nationally.	Medium
Other parties			
Total Monetised Cost		Uncertain (see above)	High
Non-monetised costs		Low	Medium
Expected benefits of proposed approach compared to taking no action			
Regulated parties	Support firms to pay fixed costs if they are struggling to do so as a result of escalated Alert Levels	The lesser of: • $1500+($400*FTE) up to 50 FTE, or • two times the firm's experienced revenue drop over the fortnight	High
Regulators	Can contribute to improved tax morale. Also can improve tax compliance by bringing more people into the tax net.	Not possible to quantify.	
Wider government	Benefits to the long-term public finances from mitigating scarring effects of reduced demand	Uncertain; depends on nature of resurgence event.	High
Other parties			
Total Monetised Benefit		Uncertain (see calculations in above box).	
Non-monetised benefits		High	Uncertain

5.3 What other impacts is this approach likely to have?
• *Other likely impacts which cannot be included in the table above, eg, because they cannot readily be assigned to a specific stakeholder group, or they cannot clearly be described as costs or benefits* • *Potential risks and uncertainties*
The counterfactual of not providing this support is unknown. However, the analysis sighted in this report indicates that the scarring effects attached to the risks of not cushioning the blow could be significant, with distributional consequences. We therefore judge that the provision of the RSP has potential to support the social license and capital needed to maintain a robust public health response, for the benefit of all New Zealanders.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?
• *When will the arrangements come into effect? Does this allow sufficient preparation time for regulated parties?*
• *How could the preferred option be given effect? E.g.,* – *legislative vehicle* – *communications* – *transitional arrangements.* The RSP will be given effect through amendments to the Tax Administration Act 1994, scheduled to be introduced in February 2021. The RSP was announced on 15 December 2020 and information on eligibility is available on a range of government websites. Cabinet has agreed retrospective payments will be possible in the event there is a resurgence prior to the application opening date, and subject to the legislation being passed. In addition, engagement with key business groups including those representing Māori and Pasifika businesses will be pursued in order to ensure a maximum number of firms are aware of the support available. Inland Revenue will be responsible for the ongoing operation and enforcement of the RSP. *Have the responsible parties confirmed, or identified any concerns with their ability to implement it in a manner consistent with the Government's 'Expectations for regulatory stewardship by government agencies'? See https://treasury.govt.nz/information-and-services/regulation/regulatory-stewardship/good-regulatory-practice* Inland Revenue has not identified any concerns with its ability to implement the new arrangements. *How will other agencies with a substantive interest in the relevant regulatory system or stakeholders be involved in the implementation and/or operation?* Design decisions have been delegated by Cabinet to relevant Joint Ministers, including the Minister of Finance, Minister of Revenue, and Minister for Small Business. Interdependencies with complementary support programmes such as the Wage Subsidy are regularly under review by the Treasury, IR and MSD.

6.2 What are the implementation risks?

- *What issues concerning implementation have been raised through consultation and how will these be addressed?*
- *What are the underlying assumptions or uncertainties, for example about stakeholder motivations and capabilities?*
- *How will risks be mitigated?*

Compressed timelines create delivery and communications risks, which could lead to:

- payments reaching the wrong businesses at an unnecessary fiscal cost;
- damaging the social capital that is critical for the success of the COVID-19 public health strategy;
- business confusion around the access to the scheme, meaning firms may lose out on support they are entitled to.

The main mitigations we have undertaken include:

- to agree, via Joint Ministers and Cabinet, detailed design rules in order to enable Inland Revenue to build the scheme at pace with as much certainty as possible;
- a series of measures to boost the integrity of the scheme and minimise gaming risks;
- taking a co-ordinated cross-Government approach to communications;
- engaging with external business stakeholders to inform the design of the scheme and promote its availability, ensuring the widest audiences are reached; and
- re-use of components developed for the SBCS as a way to meet challenging system delivery timeframes.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

- *How will you know whether the impacts anticipated actually materialise?*
- *System-level monitoring and evaluation*
- *Are there already monitoring and evaluation provisions in place for the system as a whole (ie, the broader legislation within which this arrangement sits)? If so, what are they?*
- *Are data on system-level impacts already being collected?*
- *Are data on implementation and operational issues, including enforcement already being collected?*
- *New data collection?*
- *Will you need to collect extra data that is not already being collected? Please specify.*

As with the wage subsidies, SBCS, and COVID-19 Income Relief Payment (CIRP), detailed data will be collected by the implementation agency (IR) on the uptake of the scheme. This will capture and allow government to evaluate outputs of the scheme. Information systems at IR are capable of this data collection.

Evaluation of outcomes will be imperfect, given the radical uncertainty that surrounds any resurgence event and the absence of any suitable counterfactual. In line with the objectives of the scheme and analysis that lead to its inception, we expect to minimise the erosion of firm balance sheets during a resurgence event, and ultimately prevent some insolvencies amongst viable firms that would otherwise take place. While we can assess balance sheet resilience quantitatively, much of this evaluation will be through engagement with business.

7.2 When and how will the new arrangements be reviewed?

- *How will the arrangements be reviewed? How often will this happen and by whom will it be done? If there are no plans for review, state so and explain why.*
- *What sort of results (that may become apparent from the monitoring or feedback) might prompt an earlier review of this legislation?*
- *What opportunities will stakeholders have to raise concerns?*

A review of the system will depend on whether it is activated. Subject to that, the operation of the scheme will be reviewed regularly based on user feedback and system metrics.

Monitoring of uptake and engagement will be undertaken in the event that the payment is activated as part of the broader monitoring of the economic situation.

If required, a review of any policy settings would be co-led by Treasury and Inland Revenue.

Coversheet: Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit

Advising agencies	*Ministry of Social Development and Inland Revenue*
Decision sought	*Agreement to increase main benefit abatement thresholds on 1 April 2021 and consequentially adjust the Minimum Family Tax Credit for 2020/21 and 2021/22.* *Note that on 30 November 2020, Cabinet agreed to adjust the Minimum Family Tax Credit for 2020/21 [CAB-20-MIN-0490 refers]. However, a Regulatory Impact Assessment could not be undertaken due to time constraints. Under Cabinet's regulatory impact analysis requirements, this document is:* - *the Supplementary Analysis Report for the adjustment to the Minimum Family Tax Credit for 2020/21; and* - *the Regulatory Impact Assessment for the abatement threshold increases and the adjustment to the Minimum Family Tax Credit for 2021/22.*
Proposing Ministers	*Minister for Social Development and Employment* *Minister of Revenue*

Summary: Problem and Proposed Approach

Problem Definition What problem or opportunity does this proposal seek to address? Why is Government intervention required?
The current abatement thresholds provide limited work incentives for beneficiaries The amount that beneficiaries can earn before their benefit reduces has declined substantially over time as benefit abatement thresholds have not been increased in line with wage growth. This has reduced financial incentives to enter the labour market and to work part-time for people receiving benefits. For example, a person receiving Jobseeker Support in 1997 could work around 11.4 hours on minimum wage before their benefit abated; in 2019, this has reduced to around 4.5 hours on minimum wage. ***There are trade-offs in making consequential adjustments to the Minimum Family Tax Credit*** Under current policy, the Minimum Family Tax Credit (MFTC) thresholds are adjusted annually to account for changes to relevant settings, such as changes to benefit rates, abatement thresholds and the minimum wage.

The MFTC threshold for 2020/21 was not adjusted to reflect the $25 benefit rate increase made on 1 April 2020 in response to COVID-19 due to time constraints at the time. This has resulted in the current MFTC threshold being misaligned with the current benefit rate.

Increasing main benefit abatement thresholds on 1 April 2021 has flow-on implications for the MFTC threshold in 2021/22 and subsequent tax years. To maintain financial incentives provided by the MFTC for families with children to enter work, the MFTC threshold for 2021/22 requires adjustments alongside abatement threshold increases under current policy. However, given the proposed increases to the abatement thresholds are significant, the adjustment required for the MFTC to align would be much higher than previous adjustments. This may exacerbate known issues with the MFTC, mainly reducing financial incentive for sole parents to work more than the minimum hours required. It may also increase the cost of options s 9(2)(f)(iv) in the upcoming review of Working for Families.

Summary of Preferred Option or Conclusion (if no preferred option)

How will the agency's preferred approach work to bring about the desired change? Why is this the preferred option? Why is it feasible? Is the preferred approach likely to be reflected in the Cabinet paper?

Abatement threshold increases will improve financial work incentives

Increasing benefit abatement thresholds to $160 and $250 per week increases the number of hours a beneficiary can work before their benefit begins to reduce. This will improve the financial incentives to enter the labour market and work part-time for people receiving benefits. Part-time work can provide a pathway to full-time work by providing opportunities to connect with the labour market, get work experience and become familiar with the demands that can come with employment.

There are different agency views on making adjustments to the Minimum Family Tax Credit

Under current policy, changes to benefit settings would lead to an adjustment of the MFTC threshold to ensure the financial work incentives provided by the MFTC are maintained. However, given the extent of the recent and proposed benefit changes, full adjustment of the MFTC incurs significant fiscal costs. Additionally, a significant increase to the MFTC threshold may increase the cost of options s 9(2)(f)(iv) as part of the upcoming review of Working for Families (WFF).

2020/21 MFTC threshold adjustment

Retrospectively adjusting the 2020/21 MFTC threshold to reflect the increases to main benefits that came into effect on 1 April 2020 means the work incentives provided by the MFTC will be maintained for the 2020/21 tax year. This ensures that low-income families with children (both sole parents and two parent families) are better off in work and receiving the MFTC than working and receiving the benefit.

Note that on 30 November 2020, Cabinet agreed to retrospectively increase the 2020/21 MFTC threshold to $29,432 from 1 April 2020 to reflect the increases to main benefits that came into effect on 1 April 2020 [CAB-20-MIN-0490 refers].

2021/22 MFTC threshold adjustment

Inland Revenue (IR), Ministry of Social Development (MSD) and the Treasury have differing views on the most appropriate options relating to the alignment of the MFTC threshold:

- MSD prefers the partial prospective alignment option. **This is the proposed option in the Cabinet paper.** MSD considers that a partial prospective alignment maintains the work incentives MFTC provides to the majority of MFTC recipients (ie, sole parents), but at a significantly lower fiscal cost than full alignment. MSD notes that fully aligning the MFTC threshold may exacerbate existing MFTC issues such as high Effective Marginal Tax Rates (EMTRs)[1]. MSD considers partially aligning the MFTC threshold would increase the cost of options s 9(2)(f)(iv) [redacted] as part of the upcoming WFF review, particularly if there is a desire to avoid people being financially disadvantaged by future changes. However, these effects will be less than under full alignment.

- IR prefers the full prospective alignment option. Although the fiscal cost of full alignment is greater than under other options, IR considers it necessary to maintain the work incentives provided by the MFTC, ensuring low-income families with children (both sole parents and two parent families) are better off in work and receiving the MFTC than working and receiving the benefit. IR does not consider the potential effects of aligning the MFTC threshold on any future WFF review to be a significant enough issue to warrant reducing the work incentives currently provided by the MFTC.

- In advice to Ministers, the Treasury recommended the no prospective alignment option due to the tight fiscal environment. The Treasury also did not consider that the policy decision [to align the MFTC threshold with benefit rates] meets the threshold to be progressed as a Budget pre-commitment. While the Treasury acknowledged that it was likely to introduce greater complexity for clients, the Treasury did not agree that these adverse effects were sufficient to justify funding the initiative ahead of the Budget process given the tight fiscal environment. [redacted] s 9(2)(f)(iv) [redacted]

Section B: Summary Impacts: Benefits and costs

Who are the main expected beneficiaries and what is the nature of the expected benefit?

Monetised and non-monetised benefits

Beneficiaries working part-time and non-beneficiary recipients of the Accommodation Supplement gain from abatement threshold increases

The main people to gain are beneficiaries working part-time and non-beneficiary recipients of the Accommodation Supplement (these are low to middle-income working families). MSD estimates that around 82,900 individuals and families will gain an average of $18 per

[1] Effective Marginal Tax Rate shows how a dollar increase in gross income translates to an increase in income in hand (after taxation and the reduction of income-tested assistance).

week in extra income support payments as a result of increasing benefit abatement thresholds.

Non-monetised benefits include:

- Improved financial incentives to enter the labour market and work part-time for people receiving benefits
- A modest reduction in the number of children in poverty (it is estimated that the proposed increases to the abatement thresholds will reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure[2] and 2,000 (+/- 3,000) on the BHC50 measure[3] in 2021/22), and
- Broader improvements in health and wellbeing where eligible people are engaged in work (provided the work is safe, stable and financially beneficial).

MFTC recipients and newly eligible recipients will gain from the adjustments to the Minimum Family Tax Credit

<u>Retrospective change – increasing the 2020/21 MFTC threshold to reflect the $25 benefit rate increase on 1 April 2020</u>

Approximately 3,200 families receiving the MFTC in the 2020/21 tax year would gain an additional $32 for each week they received the MFTC. The maximum MFTC increase a family could receive would be $1,664 ($32 x 52 weeks). However, it is estimated that the average MFTC increase for the year would be approximately $1,280 per family. Approximately 400 additional families would become newly eligible for the MFTC in the 2020/2021 tax year as a result of the threshold increase. Because newly eligible families will have incomes above the current threshold, the average increase for these families will be less than $32 a week.

A full retrospective increase will also maintain financial incentives for families to move off benefit and into work for the remainder of the 2020/21 tax year. It also addresses the potential equity issue whereby some families who remained off benefit and in work following the benefit rate increase on 1 April 2020 are financially disadvantaged relative to those who are on benefit.

<u>Prospective change – partially increasing the 2021/22 MFTC threshold</u>

Approximately 4,000 families are expected to receive the MFTC in the 2021/22 tax year. Of these, around 400 families would be newly eligible to the MFTC. Families would gain an additional $22 for each week they receive the MFTC. The maximum MFTC increase a family could receive in the 2021/22 tax year would be $1,144 ($22 x 52 weeks). However, because not all families will receive the MFTC for ever week of the tax year, the average MFTC increase is estimated to be less than $1,144.

[2] AHC50 measures the number of children in households with incomes much lower than a typical 2018 household, after they pay for housing costs, and is measured by the threshold line set at 50 per cent of the median income in 2017/18, after housing costs are removed.

[3] BHC50 is a moving-line income measure, with the poverty threshold taken the year the data is gathered (low income, before housing costs – moving-line measure). BHC50 measures the number of children in households with much lower incomes than a typical household, and is measured by the threshold line set at 50 per cent of the median household income in the year measured.

A partial increase of the MFTC threshold ensures that sole parents, who make up around 90 percent of the MFTC recipients, continue to be financially better off working and receiving the MFTC than working and receiving a benefit.

Where do the costs fall?

Monetised and non-monetised costs; for example to local government or regulated parties

Abatement threshold increases are primarily a cost to the Government

The cost to the Government of increasing benefit abatement thresholds is $387.496 million in income support payments and $6.4 million in operating costs over the forecast period. There is an additional cost of $80,000 for 12 months for providing a Transitional Assistance Payment (TAP) to people who may be financially disadvantaged as a result of the abatement threshold increases on 1 April 2021.

Non-monetised costs include a small reduction in financial incentives to work full-time for some beneficiaries.

Adjustments to the Minimum Family Tax Credit are primarily a cost to the Government

<u>Retrospective change – increasing the 2020/21 MFTC threshold to reflect the $25 benefit rate increase on 1 April 2020</u>

The cost to the Government of increasing the 2020/21 MFTC threshold is $4.6 million for the 2020/21 tax year and $24.1 million for the forecast period.

<u>Prospective change – partially increasing the 2021/22 MFTC threshold</u>

The cost to the Government of partially increasing the 2021/22 MFTC threshold is $17 million over the forecast period, assuming the retrospective increase is agreed to.

The financial work incentives provided by the MFTC would be reduced for two-parent families (approximately 10 percent of MFTC recipients) as they would theoretically be better off working and receiving a main benefit than working and receiving the MFTC. There may be a small net fiscal cost to the Government from two-parent families moving onto a benefit. This net fiscal cost has not been calculated due to time constraints. The behavioural impacts are uncertain.

What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?

Abatement threshold increases may financially disadvantage a small number of people but a Transitional Assistance Payment can be provided

Increasing benefit abatement thresholds will mean that a small number of people will be financially disadvantaged due to complex interactions in the income support system. TAP, a temporary non-taxable payment, is proposed to be available for up to 12 months for the small number of people who may be financially disadvantaged on 1 April 2021 as a result of the abatement threshold increases.

Retrospective and prospective adjustments to the Minimum Family Tax Credit each have unintended impacts

A retrospective increase (paid in lump sum for the portion of the year for which payments have already been made) may lead to debts being created for some people as the MFTC is chargeable income for some types of financial assistance paid under the Social Security Act 2018 (such as Temporary Additional Support). It is also assessable income for Public Housing purposes, for assessing eligibility and calculating the rate of Income Related Rent. While this does lead to debts for some clients, these debts are usually less than the value of the lump-sum payment (so clients are still better off overall) and it reflects the appropriate consideration of these payments as income for these families.

The prospective partial increase means that the MFTC would not be fully aligned with its policy intent and some two-parent families may be better off working and receiving a main benefit than working and receiving the MFTC. However, few couples are likely to qualify for a benefit if one person is working 30 hours a week as this is considered working full-time under the Social Security Act 2018[4].

Section C: Evidence certainty and quality assurance

Agency rating of evidence certainty?
How confident are you of the evidence base?
MSD is confident that increasing benefit abatement thresholds will directly increase incomes for beneficiaries working part-time and low to middle-income working families receiving the Accommodation Supplement. Holding all else equal, MSD is also confident that these increases are likely to modestly reduce child poverty. The evidence base on financial incentives to work (for both abatement threshold increase and MFTC) indicates that financial incentives are only one of many factors that influence people's decisions on whether to work and how much to work and they are not usually the most important factor. However, empirical evidence suggests small but statistically significant impacts on labour market participation and intensity from changes in financial incentives to work, with larger impacts for some groups compared to others.[5] The modelling of the increases to benefit abatement thresholds and the MFTC assumes no behavioural impacts, i.e. no increases in labour market participation or hours worked, as these impacts are likely to be modest and are difficult to quantify. While increasing financial incentives to work part-time, the changes also reduce financial incentives to work full-time for some. Again, this impact has not been quantified. There is reasonably strong evidence that suitable work has broader positive impacts on wellbeing[6],

[4] This is due to the '30-hour rule', where a person (or couple) are not eligible for Jobseeker Support if they are working full-time (defined as 30 hours a week).

[5] Kostøl, A, & Mogstad, M. (2012) How Financial Incentives Induce Disability Insurance Recipients to Return to Work. IZA Discussion Paper No. 6702 (http://ftp.iza.org/dp6702.pdf);

Card, David E., (2000) Reforming the Financial Incentives of the Welfare System. IZA Discussion Paper No. 172.

[6] The Royal Australasian College of Physicians and the Australasian Faculty of Occupational and Environmental Medicine (2015) Realising the health benefits of work – An evidence update. (https://www.racp.edu.au/docs/default-source/advocacy-library/pa-health-benefits-of-work-evidence-update.pdf?sfvrsn=4)

Waddell, G., Burton, A.K. (2006) *Is Work Good For Your Health And Well-Being?* TSO, London

but given the difficulty of modelling any increases in labour market participation or hours of work there has been no attempt to quantify these broader impacts.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
The reviewing agencies were: - Ministry of Social Development - Inland Revenue
Quality Assurance Assessment:
The Quality Assurance reviewers at Inland Revenue and Ministry of Social Development have reviewed the *Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit* RIA and considers that the information and analysis summarised in it **partially meets** the quality criteria of the Regulatory Impact Analysis framework.
Reviewer Comments and Recommendations:
It partially meets the quality criteria for the following reasons: • There has been no analysis of the behavioural impacts. This is understandable given the timeframes and difficulties undertaking this analysis. However, the abatement thresholds and the MFTC are intended to encourage people to engage in work. Ideally, RIA would include an estimate of how many people will move into work as a result of the changes. The team notes the employment impacts will be monitored following implementation. • There is minimal discussion of alternative options to the abatement threshold increases, such as the staged increases committed to by the Government as part of Budget 2019. However, the Treasury RIA team advised MSD that a full RIA for the abatement threshold increases was not required because the increases were a manifesto commitment. • In terms of the MFTC, the status quo is based on a long-established policy of full alignment of the MFTC with benefit changes. There are now differing views on the appropriateness of this automatic linkage when there are significant increases in benefit entitlements and the case for change does not adequately consider the impact on the identified group of people who would be relatively worse off if the MFTC is not increased. Moreover, the analysis relies on certain assumptions about the fiscal cost, which could benefit from further explanation, such as the degree of behavioural response that could lead individuals to shift from paid employment with MFTC to paid employment with welfare support. The behavioural responses are uncertain. The team notes the employment impacts will be monitored following implementation. • We note that the options have administrative implications but there is little discussion of the impacts, for example from backdating MFTC payments.

Curnock E, Leyland AH, Popham F. (2016) The impact on health of employment and welfare transitions for those receiving out-of-work disability benefits in the UK. *Soc Sci Med*. Aug;162:1-10. doi: 10.1016/j.socscimed.2016.05.042.

OECD (2015) *Fit Mind, Fit Job: From Evidence to Practice in Mental Health and Work*. OECD Publishing, 1–178. http://doi.org/10.1787/9789264228283-en

- Consultation with stakeholders – beyond government departments – has not happened due to time constraints and budget sensitivities.

The team recommends MSD and IR monitor the behavioural outcomes of the changes, especially the employment outcomes.

Impact Statement: Increasing main benefit abatement thresholds on 1 April 2021 and consequential adjustments to the Minimum Family Tax Credit

Section 1: General information

1.1 Purpose
Ministry of Social Development (MSD) and Inland Revenue (IR) are solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice have been produced for the purpose of informing final decisions to be taken by Cabinet in relation to increasing the abatement thresholds and consequential adjustments to the Minimum Family Tax Credit (MFTC).

1.2 Key Limitations or Constraints on Analysis

Limitations and constraints on the analysis in this document include:

- The Labour Party committed to increasing the thresholds to $160 and $250 per week from 1 April 2021 in its 2020 manifesto commitment. Therefore, other options have been ruled out, such as increasing the thresholds by a different amount, or changes to the abatement rates. (It should be noted that abatement rate changes would also have similar trade-offs that apply, and it would be harder to communicate the changes, which means it would be harder to influence people's behaviour in the direction intended).
- Other options that have been ruled out due to time constraints include extending a part-time abatement regime to Jobseeker Support on the grounds of a health condition, injury or disability to more closely match their work obligations.
- s 9(2)(f)(iv)
- The modelling results for abatement threshold increases are scaled according to the Pre-election Economic and Fiscal Update 2020 recipient and expenditure forecasts.
- The estimates of the impact of the newly eligible for abatement threshold increases are created based off existing work done in the Integrated Data Infrastructure (IDI). However, there is high uncertainty around these numbers.
- Impacts of abatement threshold increases on Special Needs Grants and recoverable assistance have not been modelled. It is expected that the number of these could modestly decrease, but there is a considerable amount of uncertainty.
- Behavioural impacts (ie, increases in labour market participation or hours worked) have not been modelled as there are various factors that influence a person's work choices and they are difficult to quantify.

- Analysis in this document has been carried out under tight time constraints.
- No consultation (beyond other Government agencies) has taken place as the proposed increases to the abatement thresholds is a Manifesto commitment and the Government's consideration of the proposed changes in this RIA is Budget Sensitive.

1.3 Responsible Managers:

s 9(2)(a) [redacted] Income Support Policy Welfare System and Income Support Policy Ministry of Social Development 3 December 2020	s 9(2)(a) [redacted] Carolyn Elliott Families and Individuals Policy and Strategy Inland Revenue 3 December 2020

Section 2: Problem definition and objectives

2.1 What is the current state within which action is proposed?

The welfare system is structured to assist those most in need and encourage paid work where possible

New Zealand's welfare system is designed to target people who are unable to fully support themselves through paid work. Almost all income support in New Zealand is targeted on the basis of family income (and family assets), with the family defined as the nuclear family (i.e. adults and any dependent children). Income and asset tests are determined by a combination of the abatement settings of payments (how fast they are reduced) and the rates of the benefit payments. Generally, the full rate of a payment will be available to people earning up to a certain amount (known as the abatement threshold). Above this amount, payments reduce (abate) as people's incomes increase.

The welfare overhaul involves a range of changes including changes to abatement thresholds and Working for Families tax credits

The Welfare Expert Advisory Group (WEAG), in its report *Whakamana Tāngata*, proposed a comprehensive package of substantial changes to income support, while broadly maintaining the existing structure of income support. The WEAG package emphasised improving income adequacy and simplifying and rationalising the purpose of particular payments. The WEAG recommended that abatement thresholds for main benefits be increased to $150 and $250 per week.

In 2019, Cabinet agreed to overhaul the welfare system to achieve its vision for a system that ensures people have an adequate income and standard of living, are treated with respect, can live in dignity, and are able to participate meaningfully in their communities [CAB-19-MIN-0578 refers]. On 6 November 2019, Cabinet endorsed a high-level short, medium, and long-term work programme to achieve this vision, but did not detail when work would be progressed.

As part of the welfare overhaul work programme, the Government also agreed to a review of Working for Families (WFF) tax credits, including the MFTC.

COVID-19 has caused significant economic disruption in New Zealand

COVID-19 has caused major economic disruption in New Zealand and globally. With great uncertainty in the economy and with extended border closures, unemployment is forecast to rise, peaking at 7.8 percent in the March 2022 quarter.

As a result of the weaker economic outlook, beneficiary numbers are forecast to increase. In October 2020, 369,860 people were receiving a main benefit, at 11.8 percent of the estimated New Zealand working-age population. This is 69,623 more than October 2019. Of the 369,860 receiving a main benefit, 203,371 were Jobseeker Support recipients (6.5 percent of the working-age population), which is 61,241 more than October 2019. The number of people on a benefit is expected to peak in May 2021 at around 443,000, with another peak later in January 2022 reaching around 453,800.

The economic impacts of COVID-19 are expected to disproportionally impact Māori, Pacific people, disabled people (including people with health conditions) and sole parents, who are more likely to be employed in areas affected by job losses and have additional barriers to accessing employment. COVID-19 will certainly increase poverty and hardship rates, although it is too soon to estimate the size of these impacts. The sudden loss of all employment income, or reduced employment income, can tip many families into financial hardship, especially if they have limited cash or near-cash assets to maintain existing commitments (e.g. rent, mortgage and consumer debt).

Government's response to COVID-19

As part of the Government's response to COVID-19, on 1 April 2020, main benefit rates increased by $25 per week. The Winter Energy Payment (WEP), which is paid from 1 May to 1 October each year, was doubled for the 2020 winter period.

Along with work to minimise hardship for families, the Government has introduced a range of initiatives aimed at boosting employment for those who have lost jobs due to COVID-19.

Labour Party's 2020 manifesto commitment

The Labour Party's 2020 manifesto committed to:

- increase abatement thresholds to $160 and $250 per week from 1 April 2021;
- progressively increase the abatement threshold year on year in line with minimum wage increases; and
- continue with the welfare overhaul work and to implement WEAG's recommendations to improve the welfare system.

2.2 What regulatory system(s) are already in place?

Benefit abatement thresholds allow people to work some hours while on benefit

New Zealand's welfare system is designed to assist people who are unable to fully support themselves through paid work. Assistance is targeted through the eligibility criteria[7] and the benefit abatement regime, which gradually reduces payments that people receive as their other income increases.

Generally, the full rate of payment will be available to people earning up to a certain amount; this is the abatement threshold. Above this amount, payments abate as people's other income increases, but payment can abate in different ways and at different rates based on the type of benefit payment. The abatement rules, along with the benefit rate, determine the benefit cut-out point, which is the amount of income at which a benefit is reduced to zero.

The abatement threshold allows people to work for a small number of hours without having their benefit payment affected and is seen as a way to encourage labour market entry. It is also intended to recognise that there are additional costs associated with work, such as transport costs.

[7] Social assistance payments are typically means-tested, and eligibility is based on family rather than individual income.

Currently there are two main abatement regimes within the welfare system, which seek to align the financial incentives to work with the level of labour force engagement expected of the individual:

- ***a part-time regime*** has two abatement thresholds, with a relatively low abatement rate of 30 percent applied at the first threshold, and an abatement rate of 70 percent applied at the second threshold. This is designed to incentivise part-time work and applies to people receiving Sole Parent Support (SPS) and Supported Living Payment (SLP), as well as to those under 65 receiving the Veteran's Pension (VP). The assumption is that part-time work is often the best option for recipients of these payments.
- ***a full-time regime*** has a relatively high abatement rate of 70% which is designed to incentivise full-time work. This mainly applies to people on Jobseeker Support (JS)-related benefits, as well as Non-Qualifying Partners (NQP) of New Zealand Superannuation (NZS) and VP recipients. The assumption is that people receiving these benefits are able to undertake full-time work where it is available.

The current abatement thresholds and rates are set out below:

Abatement rate at different thresholds	**Current amount beneficiaries can earn per week before their benefit begins to abate**
JS (abatement rate of 70%)	$90
NZS/VP with non-qualifying partner (abatement rate of 70%)	$115
SPS, SLP and VP (under 65) – Threshold One (abatement rate of 30%)	$115
SPS, SLP and VP (under 65) – Threshold Two (abatement rate of 70%)	$215

Under the current settings, a JS recipient would have their benefit reduce by 70 cents for every dollar earned over $90. For a SPS recipient, their benefit would reduce by 30 cents for every dollar earned over $115, and by 70 cents for every dollar earned over $215.

The Minimum Family Tax Credit incentivises families with children to move off benefit and into greater amounts of work

The MFTC is one of the WFF tax credits. The MFTC aims to incentivise families with children (in particular, sole parents) to move off benefit and into greater amounts of paid work[8] by ensuring people who move from working and receiving a main benefit into working and receiving the MFTC are not financially worse off from doing so. This is done by "topping-up" families' earned income to a prescribed level (the MFTC threshold) that means they are financially better off by working a greater amount and receiving the MFTC than working and receiving a benefit. This effectively creates a guaranteed income for families, above what they would receive if they were on a benefit. Around 90 percent of MFTC recipients are sole parent families.

[8] Families with children qualify for the MFTC when they work 20 hours of more per week for sole parents, and 30 hours or more for couples.

The MFTC abates at 100 percent for every dollar earned over the MFTC threshold. This means that for every dollar a family earns over the prescribed amount, their MFTC entitlement reduces by one dollar.

The MFTC threshold, as at 30 November 2020, is $27,768 per year (after tax). This is $534 per week. Approximately 3,800 families were paid nearly $12 million in the 2020/21 tax year. The average MFTC payment amount was $3,100 per family. IR forecasts that there will be a decrease to approximately 3,200 families in the 2021/22 tax year.[9]

As part of the introduction of WFF, on 26 April 2004, Cabinet agreed to increase the MFTC on 1 April each year by an amount sufficient to ensure that couples do not suffer a reduction in income when moving off benefit into 30 hours of paid work a week, from 1 April 2006 onwards [CAB Min (04) 13/4 refers]. Consequently, the MFTC threshold has been increased each year since 2006 to reflect the latest changes to relevant settings (such as benefit rates, the minimum wage and abatement thresholds).

The MFTC threshold is set by calculating the total income a two-parent family could receive if they were working less than 30 hours and receiving an abated main benefit (the couple rate for Jobseeker Support) and the Winter Energy Payment. This amount is then increased by $1 and rounded up to the next multiple of $52 (as expressed for the weeks in the year). Sole parents face the same MFTC threshold as two-parent families. As the sole parent benefit is lower than the couple rate of Jobseeker Support, this means that sole parents gain significantly more than two-parent families by moving onto the MFTC.

Roles of government agencies

The Ministry of Social Development administers and provides information on financial assistance, employment and housing. MSD’s role includes paying financial assistance, providing support for getting people into and maintaining employment and housing.

Inland Revenue administers New Zealand’s tax system, collecting Crown revenue, as well as collecting and distributing social support programme payments, such as WFF tax credits.

[9] Some reasons for the decrease in tax year 2021 could be due to the impacts of Covid-19 on employment, or the increase in main benefit payments and temporary doubling of the Winter Energy Payment from 1 April 2020. The latter changes have made the financial incentives to stay on benefit higher.

2.3 What is the policy problem or opportunity?

Abatement thresholds have become out of line with their original settings and offer little financial incentive to enter the labour market or work part-time

Abatement thresholds are increased through one-off changes, rather than being adjusted annually. On 1 April 2020, the abatement thresholds were adjusted through funding secured through Budget 2019. This funding committed to progressively increase the abatement thresholds for main benefits over four years (until 2023, as set out in the below table) in line with minimum wage increases [CAB-19-MIN-0174.36 refers]. The adjustment aimed to ensure that the number of hours a beneficiary could work on minimum wage before abatement began would not reduce any further.

Abatement threshold for:	Prior to April 2020	1 April 2020	1 April 2021	1 April 2022	1 April 2023
Jobseeker Support	$80	$90	$95	$100	$105
NZS/VP non-qualifying partner	$100	$115	$120	$125	$130
SPS and SLP – Threshold One	$100	$115	$120	$125	$130
SPS and SLP – Threshold Two	$200	$215	$220	$225	$230

However, prior to the April 2020 adjustment, the last adjustment to main benefit abatement settings occurred in September 2010, when changes were made for recipients of (what was then known as) Domestic Purposes Benefit, Invalid's Benefit, Widow's Benefit as well as for VP (under 65), and NZS and VP with non-qualifying partners. For the full-time abatement regime for JS, the threshold had remained at $80 since it was last adjusted in 1996.

This has meant that the amount that people could earn before their benefit abated has declined in real terms over time as wages have increased, particularly for JS recipients. For example, a person receiving JS in 1997 could work approximately 11.4 hours on minimum wage ($7.00 per hour) before their benefit abated. In 2019, a person receiving JS could only work for approximately 4.5 hours on minimum wage ($17.70 per hour) before their benefit abated. The current settings, despite the adjustments made in April 2020 and subsequent increases set through till 2023, have moved out of line with the original abatement settings and now offer little financial incentive for people to engage in paid work while receiving a main benefit.

The MFTC was not adjusted following COVID-19 related benefit increases

On 1 April 2020, as part of the previous Government's response to COVID-19, main benefit rates were increased by $25 per week. The Winter Energy Payment was also temporarily doubled for the 2020 winter period.

Under normal circumstances, a consequential increase in the MFTC threshold would likely have been made at the same time. However, the urgent pace at which these benefit changes occurred meant that no decision to change the MFTC threshold was made. This has resulted in the current MFTC threshold being misaligned with the current benefit rate. Under current policy, the MFTC threshold should be increased to account for the increase in benefit rates.

Proposed increases to the abatement thresholds on 1 April 2021 will also require an increase to the MFTC threshold under current policy

Increasing the abatement thresholds on 1 April 2021 (as per the Labour Party's 2020 manifesto commitment) has flow-on implications for the MFTC threshold. Under current policy, a consequential increase to the 2021/22 MFTC threshold would be made to reflect the changes to the abatement thresholds.

If the MFTC threshold does not maintain alignment with the benefit abatement thresholds, this will be inconsistent with the policy intent of the MFTC, that is, to provide a financial incentive to work a greater amount and move off benefit and on to the MFTC. The greater the misalignment of the MFTC threshold and benefits, and the longer the misalignment continues, the greater the impact on the incentives for low income families with children to leave the benefit and work a greater amount and receive the MFTC.

There is also a potential equity issue in that not fully aligning the MFTC threshold financially disadvantages those families who remain off benefit (relative to those who are on benefit). If benefit settings are intended to reflect a minimum level of income for beneficiaries, then implicitly, the guaranteed minimum income provided to working and off-benefit families (via the MFTC) should be at least the same.

The MFTC provides little to no incentive for sole parents to work more than 20 hours a week while receiving the MFTC

The proposed increases to the abatement thresholds on 1 April 2021 are significant, which would require the 2021/22 MFTC threshold adjustment to be much greater than its previous adjustments. This may further exacerbate known issues with the MFTC, mainly that the MFTC provides little to no financial incentive for sole parents to work more than the minimum required hours (20 hours a week) while receiving the MFTC. This is because income earned over the MFTC threshold would reduce the MFTC payment dollar for dollar. This is known as a 100 percent effective marginal tax rate (EMTR); high EMTRs indicate low financial incentives to work.

A significant adjustment to the MFTC threshold would further reward working the minimum number of hours required for the MFTC at the expense of working more than this. This is because the adjustment would mean the income range over which the MFTC is available would be extended, resulting in a larger range of hours worked with a 100 percent EMTR and further reduction in incentives to work greater hours for sole parents on low/minimum wage. For example:

- Fully adjusting the MFTC increases the gain that sole parents receive by moving from working and receiving the benefit to working and receiving the MFTC to around $125 a week; but reduces the gain from increasing work hours from 20 to 40 hours a week to around $20 a week.[10]
- Partially adjusting the MFTC increases the gain that sole parents receive by moving from working and receiving the benefit to working and receiving the MFTC

[10] This calculation is for a sole-parent family with two children (aged 3 and 5) earning the minimum wage ($20 per hour) when working, living in Auckland, paying lower quartile rent and receiving the Accommodation Supplement, Temporary Additional Support and relevant tax credits. It does not take into account childcare costs.

to around $85 a week; but reduces the gain from increasing work hours from 20 to 40 hours a week to around $60 a week. [11]

While working 20 hours a week may be desirable for many sole parents due to their caregiving responsibilities and financial incentives being just one of the reasons for labour supply decisions, disincentivising sole parents from working more than 20 hours per week (or taking up higher wage work) may impact on their longer-term labour market trajectories and lifetime earnings. It is important to note that there is also robust evidence to show that the gap between “in work” income and “out of work” income is a stronger driver of behaviour than the incentive to increase work by an additional hour. A significant adjustment in the MFTC would result in a larger gap between “in work” income and “out of work” income (at 20 hours for sole parents and 30 hours for couples) and would potentially provide a stronger financial incentive to go from not working to working the minimum number of hours for the MFTC than partial or no adjustment options.

There is an upcoming review of Working for Families, which includes the MFTC

A review of WFF is planned for 2021, s 9(2)(f)(iv) [redacted] This means that any significant adjustments to the current MFTC threshold would likely increase the cost of options for reform. This is largely due to:

- the significant gain that sole parents receive by moving from working and receiving a benefit to working and receiving the MFTC – currently around $60 a week (for no extra hours of work)
- the likely need to ensure that options for reform do not financially disadvantage low-income working sole parents, as this would be likely to be seen as contrary to the Government’s vision for the welfare system, particularly given its focus on improving income adequacy and reducing child poverty.

s 9(2)(f)(iv) [redacted] any significant adjustment to the MFTC threshold would increase the gain that sole parents currently receive by moving onto the MFTC s 9(2)(f)(iv) [redacted]

[11] As above.

[12] Earning minimum wage and therefore, eligible for the maximum amount of the MFTC.

2.4 What do stakeholders think about the problem?

No explicit consultation on these changes beyond Government agencies has taken place

No consultation (beyond other Government agencies) has taken place as the proposed increases to the abatement thresholds is a Manifesto commitment and the Government's consideration of the proposed changes in this RIA is Budget Sensitive.

MSD, IR and the Treasury's views on the adjustments to the MFTC thresholds are set out in Section 5.1.

However, the Welfare Expert Advisory Group informed our analysis

The proposed approach for abatement threshold changes has been informed by the findings of the WEAG, which in turn was informed by the views of stakeholders and those who took part in the engagement process.

The WEAG conducted wide consultation with a variety of groups across New Zealand. This included face to face meetings with more than 1,300 individuals and organisations (such as people receiving welfare payments, employers, service providers, advocates, and community workers), 1,348 written submissions, and additional submissions through online engagement.

In February 2019, the WEAG published its report *Whakamana Tāngata,* which noted that the income support system needs to encourage the outcomes of good and appropriate work by ensuring people are financially better off in paid work.

One element of making work pay is ensuring that abatement settings are reasonable, especially at the point when people are entering work. The WEAG recommended that the abatement thresholds for main benefits be increased to $150 and $250 per week.

The WEAG also recommended substantial changes to WFF and other tax credits to improve the adequacy of incomes and returns from paid work for families with children. This included a recommendation to replace the MFTC, In-Work Tax Credit and Independent Earner Tax Credit with a new Earned Income Tax Credit.

2.5 What are the objectives sought in relation to the identified problem?

Three primary objectives to consider are:

- Improve income adequacy for beneficiaries and low-income people
- Improve financial incentives to work
- Pay welfare support at a sustainable cost to government

These objectives should be considered within the overarching government commitment to overhaul the welfare system, in line with the WEAG's recommendations.

Improving income adequacy for beneficiaries and low-income people

Any changes proposed in this RIA should seek to improve income adequacy for low-income people. While the recent changes to the welfare system (including the Families Package, the $25 increase to main benefits on 1 April 2020 and the indexation of main benefits to average wage) will help to improve living standards of low-income people, income adequacy issues are likely to remain for many low-income people. The changes proposed in this RIA should ensure people can receive increased incomes through undertaking paid employment, and keep more of their earnings.

Improving financial incentives to work

Improving financial incentives to work is one component of encouraging people who are able to work to seek employment, alongside other interventions such as active labour market policies. For the majority of people, paid work is a key means of achieving improved wellbeing. For this reason, most income support systems typically aim to ensure that people are financially incentivised to work where this is a possibility.

However, financial incentives are only one of many factors that influence people's decisions on whether to work and how much to work and they are not usually the most important factor. Additionally, different amounts of work may be appropriate for different people given their circumstances.

While the changes proposed in this RIA seek to improve incentives to enter the labour market and to work part-time, the changes also slightly reduce the incentives to work full-time.

Paying welfare at a cost that is sustainable to government

The Government is required to act and pursue its policy objectives in accordance with the principles of responsible fiscal management as set out in the Public Finance Act 1989, such as managing fiscal risks facing the government, having regard for the impact on present and future generations, and ensuring the Crown's resources are managed effectively and efficiently.

Any changes proposed in this RIA must be at a sustainable cost to government, particularly given the current tight fiscal environment following the range of initiatives implemented by the Government in response to COVID-19.

There are significant trade-offs between these three objectives

There are significant trade-offs between these three objectives. It is generally possible to achieve two of the three objectives for any given policy change, but not all three. These three objectives are all important, and any policy will need to balance the trade-offs between these objectives.

Section 3: Option identification

3.1 What options are available to address the problem?

There are two options for abatement threshold increases

<u>Option One – Increase the abatement thresholds to $160 and $250 per week on 1 April 2021</u>

This option proposes to increase abatement thresholds to $160 and $250 per week from 1 April 2020, as specified in the Labour Party Manifesto 2020. The proposed increases are set out below:

Abatement threshold for:	1 April 2021
Jobseeker Support	$160
NZS/VP with non-qualifying partner	$160
SPS and SLP – Threshold One	$160
SPS and SLP – Threshold Two	$250

Under this option, beneficiaries will be able to work up to eight hours on minimum wage (based on minimum wage increasing to $20 per hour on 1 April 2021) before their benefit begins to abate. For recipients of SPS, SLP and VP (under 65), they can work up to 12.5 hours before their benefit begins to abate at the higher rate (Threshold Two).

This would have a fiscal cost to the Government of $387.496 million in income support payments and $6.4 million in operating costs over the forecast period.

<u>Option Two – Status quo</u>

This option proposes not to increase abatement thresholds on 1 April 2021, other than the adjustments that have been set to occur for 2021, 2022 and 2023 through funding secured through Budget 2019. This means for the next three years, the abatement thresholds would be adjusted as follows:

Abatement threshold for:	1 April 2021	1 April 2022	1 April 2023
Jobseeker Support	$95	$100	$105
NZS/VP with non-qualifying partner	$120	$125	$130
SPS and SLP – Threshold One	$120	$125	$130
SPS and SLP – Threshold Two	$220	$225	$230

Under this option, the number of hours beneficiaries can currently work up to before their benefit begins to abate (around 4.5 hours on minimum wage) will be maintained (not reduce any further) over the next three years.

There are two options for retrospectively adjusting the Minimum Family Tax Credit threshold

There are two options to consider for retrospective adjustment to the 2020/21 MFTC threshold:

- Option One (status quo) – full retrospective alignment of the 2020/21 MFTC threshold. This is the status quo, as under current policy, the MFTC threshold would be adjusted in line with changes to benefit rates and abatement thresholds.

- Option Two – no retrospective alignment of the 2020/21 MFTC threshold.

Retrospective adjustment	Detail	Fiscal cost	Number of families affected	Average gain for affected families
Option One – full alignment (status quo)	This would increase the threshold to $29,432.	$24.1 million over the forecast period.	Around 3,200 families receiving the MFTC in the 2020/21 tax year would be affected. Around 400 additional families would become newly eligible.	Additional gain of $32 for each week they receive the MFTC. It is estimated that the average MFTC increase would be $1,280 per family per year.[13]
Option Two – no alignment	This would maintain the threshold at $27,768.	No additional cost.	Around 3,200 families receiving the MFTC in the 2020/21 tax year would continue to receive the same amount of MFTC as currently.	Some families may be better off working and receiving an abated benefit than staying on the MFTC.

There are three options for prospectively adjusting the Minimum Family Tax Credit threshold

There are three options to consider for prospective adjustment to the 2021/22 MFTC threshold:

- Option One (status quo) – full alignment of the 2021/22 MFTC threshold to reflect abatement threshold increases. This is the status quo, as under current policy, the MFTC threshold would be adjusted in line with changes to benefit rates and abatement threshold.
- Option Two – partial alignment of the 2021/22 MFTC threshold.
- Option Three – no adjustment to the MFTC threshold.

[13] The maximum MFTC increase a family could receive would be $1,664 ($32 x 52 weeks). Because newly eligible families will have incomes above the current threshold, the average increase for these families will be less than $32 dollars a week

Prospective adjustment	Detail	Fiscal cost **	Number of families affected **	Average gain for affected families **
Option One – full alignment (status quo)	This would increase the threshold to $32,604.	$51 million over the forecast period.	Around 4,900 families expected to be receiving MFTC in the 2021/22 tax year. Of these, around 1,300 families would be newly eligible for the MFTC.	Additional gain $61 for each week they receive the MFTC. The maximum possible increase for the year would be $3,172 per family[14].
Option Two – partial alignment	This would increase the threshold to $30,576.	$17 million over the forecast period.	Around 4,000 families expected to be receiving the MFTC in the 2021/22 tax year. Of these, around 400 families would be newly eligible for the MFTC.	Additional gain of $22 for each week they receive the MFTC. The maximum possible increase for the year would be $1,144 per family[15]. Two-parent families (10% of the MFTC recipients) would be better off receiving an abated benefit and working than staying on the MFTC.
Option Three – no alignment	This would maintain the threshold at $29,432 (assuming retrospective change goes ahead).	There may be some working families, who move off the MFTC and on to a benefit (or stay on benefit rather than move onto the MFTC). This would mean reduced MFTC (and In-work Tax Credit) costs, but an increase in benefit costs. These costs have not been quantified and are likely to be small.	Around 3,600 families receiving the MFTC in the 2020/21 tax year would continue to receive the same amount of MFTC as in 2020/21.	Couples (and some sole-parent families) would be better off working and receiving an abated benefit than staying on the MFTC.

** Note that this table assumes the full retrospective alignment for the 2020/21 MFTC threshold, which was agreed by Cabinet on 30 November 2020, has been implemented [CAB-20-MIN-0490 refers].

[14] It is difficult to estimate the number of weeks a family would receive the MFTC on average for a future tax year. The gain would be less for families who do not receive the MFTC for the full year.

[15] As above

3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?

Full assessment of impacts was not completed for abatement threshold increases

As the Labour Party has committed to increasing the abatement thresholds as per Option One, MSD has not undertaken a full assessment of the likely impacts of the options in this RIA.

Criteria for evaluating options for adjusting the Minimum Family Tax Credit

Both the retrospective and prospective alignment options have been evaluated against the following criteria:

- **Work incentives** – the option should ensure the MFTC continues to fulfil its policy objective to financially incentivise low-income families with children to move from working and receiving a benefit to working and receiving the MFTC.
- **Equity** – the option should not financially disadvantage those families receiving the MFTC (ie, in full-time work and off benefit) compared with families who are on benefit.
- **Future reform –** the option should not significantly limit choices for future reform of the MFTC and WFF scheme generally.

3.3 What other options have been ruled out of scope, or not considered, and why?

As the Labour Party has committed to increasing the abatement thresholds as per Option One, MSD has not considered any other options for change, such as increasing the abatement thresholds by different amounts, or changing the abatement rate. Note that changing the abatement rate may be more difficult to influence people's decision to work as it can be harder for people to understand how the changes in the abatement rates affect their payments.

Other options ruled out include possible abatement setting changes for clients on Jobseeker Support on the ground of a health condition, injury or disability (JS-HCD). JS-HCD is available for people assessed as being temporarily unable to work, or able to work only part-time. Therefore, JS-HCD recipients have either part-time or deferred work obligations. However, JS-HCD recipients face the same high abatement rate of 70 percent as other JS clients, aimed at incentivising full-time work, which means current settings may not adequately support JS-HCD recipients to engage in part-time work. Changing the abatement settings for JS-HCD recipients to better support part-time work was ruled out due to time constraints. Further work is required to design and implement any changes in this space to ensure positive outcomes for JS-HCD recipients.

s 9(2)(f)(iv)

Section 4: Impact Analysis

Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2?

Adjustment to the Minimum Family Tax Credit - retrospective

	Option One - Full retrospective alignment of the 2020/21 MFTC threshold (status quo)	Option Two - No retrospective alignment of the 2020/21 MFTC threshold
Work incentives	**0** Work incentives for the months remaining in the tax year (up until 1 April 2021) would be maintained. However, any increase delivered by a lump sum at the end of the tax year (to cover April to December 2020) cannot incentivise families to move off benefit after the fact.	**-** The MFTC threshold would not have met its policy intent of making low-income families better off working and receiving the MFTC than working and receiving a benefit.
Equity	**+** Fully aligning the threshold will mean MFTC recipients would be not be disadvantaged compared to working families receiving a benefit. Given the income assistance provided to those on benefit was increased on 1 April 2020 and the MFTC is set relative to the amount of income a beneficiary can receive, MFTC recipients should also be compensated for the increase in assistance to beneficiaries.	**- -** Not aligning the threshold will mean MFTC recipients would be disadvantaged compared to working families receiving a benefit.
Future reform	**-** Increasing the MFTC threshold may make future WFF reform more complex and costly, s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged.	**+** Not increasing the MFTC threshold would make future WFF reform less complex and costly than Option One.
Overall assessment	**0**	**-**

Adjustment to the Minimum Family Tax Credit - prospective

	Option One - Full alignment of the 2021/22 MFTC threshold to reflect abatement threshold increases (status quo)	Option Two - Partial alignment of the 2021/22 MFTC threshold	Option Three - No adjustment to the MFTC threshold
Work incentives	+ This option would maintain the original MFTC policy intent of providing low-income families (both sole parent and two-parent families) with a financial incentive to increase work and move off benefit. However, this option would extend the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work more hours than the minimum required for the MFTC or earn more income.	+ This option would maintain the original policy intent of providing low-income families a financial incentive to work and move off benefit. It would be for a slightly smaller group than Option One as only sole parents (who account for approximately 90% of MFTC recipients) would be better off on the MFTC. This would also extend the range of income over which families receive the MFTC, thereby reducing the financial incentive for those families to work more hours than the minimum required for the MFTC or earn more income. However, this would be less than Option One.	- - This option would significantly diminish the original MFTC policy intent of providing low-income families a financial incentive to increase work and move off benefit.
Equity	+ Fully aligning the threshold will mean MFTC recipients (both sole parent and two-parent families) would be not be disadvantaged compared to working families receiving a benefit.	+ Sole parents, who account for approximately 90% of MFTC recipients, would remain better off on the MFTC. However, some of the remaining 10% families receiving the MFTC may be financially better off working and receiving a benefit than working and receiving the MFTC.	- - Not aligning the threshold will mean some MFTC recipients would be better off working and receiving a benefit than working and receiving the MFTC. An important goal of the welfare system is to enable people to fully support themselves through paid work where this is appropriate.
Future reform	- Increasing the MFTC threshold may make future WFF reform more complex and costly, [redacted] s 9(2)(f)(iv) [redacted] particularly if there is a desire to	- Partially increasing the MFTC threshold may make future WFF reform complex and costly; a partial alignment means families would gain around $85 a week moving from working and	+ With no alignment (ie, 2020/21 threshold of $29,432 maintained for 2021/22), families would gain around $60 a week moving from working and receiving a benefit, to working and receiving

	avoid people being financially disadvantaged. A full alignment means families would gain around $125 a week moving from working and receiving a benefit, to working and receiving the MFTC. s 9(2)(f)(iv) [redacted]	receiving a benefit, to working and receiving the MFTC. s 9(2)(f)(iv) [redacted] However, this would be less costly and complex than Option One.	the MFTC. Therefore, non-alignment of the MFTC threshold is likely to make future WFF reforms less complex and costly than Options One and Two.
Overall assessment	+	+	-

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

- - much worse than doing nothing/the status quo

Section 5: Conclusions

5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

Option One is the preferred option for abatement threshold increases

The proposed option for abatement threshold increase is Option One as it means the thresholds will better align with the original abatement settings (as well as WEAG's recommendation), which enabled beneficiaries to work for longer hours before abatement occurred. This option will allow working beneficiaries to keep a greater proportion of their earnings before their benefit is affected, thereby improving income adequacy and financial incentives to work part-time while on a benefit.

This option may reduce the financial incentive for beneficiaries working part time to move into full time work. However, better incentivising beneficiaries to enter the labour market and maintain work, even if part-time work, is important. This is particularly so for those already disadvantaged in the labour market prior to COVID-19, such as sole parents and people with health conditions, injury or disability, for whom suitable work may only be part-time work.

Paid work can not only lift incomes and living standards, it can also enable people to experience better self-assessed health, life satisfaction and social connectedness. Part-time work can also provide a pathway to full-time work by providing opportunities to connect with the labour market, gain work experience and become familiar with the demands that can come with employment. Also, given the economic impacts of COVID-19 and many people facing reduced hours, this option ensures that those on low incomes with reduced hours can access financial assistance while still being attached to their job.

No consultation (beyond other Government agencies) has taken place as this change is a Manifesto commitment (and the Government's consideration of it is Budget Sensitive).

Option One is the preferred option by IR for restrospectively adjusting the Minimum Family Tax Credit

Option One is the preferred option by IR, and is the proposed option in the Cabinet paper. MSD does not have a preferred option. Note that Cabinet agreed to adjust the 2020/21 MFTC threshold as per Option One on 30 November 2020 [CAB-20-MIN-0490].

This option means the financial incentive provided by the MFTC for families with children to move off benefit and into greater amounts of work would be maintained for the remainder of the 2020/21 tax year. While the increase cannot incentivise families with children to move off benefit for the period of the 2020/21 tax year that has already passed (April to December 2020), it addresses the potential equity issues, whereby those families who remained off benefit and in work during April to December 2020 are financially disadvantaged relative to those who were on benefit.

MSD and IR have different preferred options for prospectively adjusting the Minimum Family Tax Credit

Option Two is the preferred option by MSD, and is the proposed option in the Cabinet paper.

This option ensures that around 90% of MFTC recipients (ie, sole parents) would remain better off working and receiving the MFTC than working and receiving a benefit. While a partial increase would extend the income range over which the MFTC is available, resulting in reduced financial incentives to work greater hours for sole parents on low-incomes, the impact would be smaller than Option One. MSD considers fully aligning the MFTC threshold would increase the cost and complexity of any future WFF review s 9(2)(f)(iv) [redacted] particularly if there is a desire to avoid people being financially disadvantaged. However, these effects will be less under Option One than Option Two.

IR's preferred option is Option One. While the fiscal cost of full alignment are greater than under other options, this option maintains the work incentives provided by the MFTC by ensuring low-income families with children (both sole parents and two-parent families) are better off working and receiving the MFTC than working and receiving a benefit.

IR does not consider the potential effects of aligning the MFTC threshold on any future WFF review to be a significant enough issue to warrant removing the work incentives currently provided by the MFTC.

IR considers that there is a potential equity issue if the MFTC threshold is not fully aligned. Less than full alignment potentially disadvantages those families who remain in work and off benefit, relative to those in work and receiving a benefit. If benefit settings are intended to reflect a minimum level of income for beneficiaries, then implicitly, the guaranteed minimum income provided to working and off-benefit families (via the MFTC) should be at least the same.

In advice to Ministers, the Treasury recommended the no prospective alignment option due to the tight fiscal environment. The Treasury also did not consider that the policy decision [to align the MFTC threshold with benefit rates] meets the threshold to be progressed as a Budget pre-commitment. While the Treasury acknowledged that it was likely to introduce greater complexity for clients, the Treasury did not agree that these adverse effects were sufficient to justify funding the initiative ahead of the Budget process given the tight fiscal environment. s 9(2)(f)(iv) [redacted]

5.2 Summary table of costs and benefits of the preferred approach

Affected parties *(identify)*	**Comment**: *nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks*	**Impact** *$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts*	**Evidence certainty** *(High, medium or low)*
Abatement threshold increases			
Additional costs of proposed approach compared to taking no action			
Monetised cost to Crown	Increase in Benefit or Related Expenses from increasing	$387.496 million over five years.	High

	abatement thresholds to $160 and $250 per week on 1 April 2021 (one-off increase, no further increases in subsequent years).		
	Cost of MSD implementing the abatement threshold increases (IT, additional staff, training, communications etc).	$6.4 million (one-off cost).	High
Low-income working individuals and families receiving main benefits	Reduction in financial incentive to work full-time.	Low to moderate impact: Increasing abatement thresholds will reduce the Effective Marginal Tax Rate (EMTR) for those below it, but will extend the range of incomes above it that experience high EMTRs (ie, low financial incentive to work).	Medium
	Some may be financially disadvantaged as a result of the abatement threshold increases: - Some people will lose their TAS disability exception as they move off the TAS upper limit and become ineligible for the DA exception - Some may face a reduction in the hourly Childcare Assistance subsidy rate as a result of abatement threshold increases if they become newly eligible for AS or their AS payment increases.	Low to moderate impact: Around 79 individuals and families are expected to lose an average of $19 a week.	Medium
Total Monetised Cost	Implementation and alterations to the operating model and the ongoing increase in benefit payments due to higher abatement thresholds.	$393.896 million over five years.	

Non-monetised costs	Following adjustment to the new abatement thresholds, there will be: - a small number of people financially disadvantaged - a reduction in financial incentive to work full-time - additional work for case workers as more people become eligible for main benefits or AS.	Moderate impact.	

Abatement threshold increases			
Expected benefits of proposed approach compared to taking no action			
Low-income working individuals and families receiving main benefits, non-beneficiaries receiving the AS, people newly eligible for benefits as a result of the changes	Incomes will increase as a result of changes to abatement thresholds. *This may, as a result, make housing more affordable for some (low to moderate impact).	Moderate to high impact: Around 82,900 individuals and families are expected to benefit by on average $18 per week. Of these, around 15,500 are Māori families and 5,100 are Pacific families. Around 50,300 non-beneficiaries receiving AS are expected to benefit with an average gain of $12*. Around 7,000 newly eligible people could take up a main benefit, while around 4,000 people could take up AS as a result of the changes.	Medium
Low-income working individuals and families	Improved financial incentives to work, particularly part-time which will increase incomes.	Moderate impact: Around 29,500 individuals and families currently receiving a main	Medium

receiving main benefits		benefit are expected to benefit with an average weekly gain of $29. Around 3,100 individuals and families receiving NZS are expected to benefit with an average weekly gain of $21.	
Clients with children, including SPS recipients	Reductions in child poverty as families with children are able to work more hours before their benefits are abated.	Low to moderate impact: Around 50,200 families with children will benefit. It is estimated that the abatement thresholds will reduce child poverty by around 6,000 (+/- 3,000) on the AHC50 fixed line measure and 2,000 (+/- 3,000) on the BHC50 measure in 2021/22.	Medium
Total Monetised Benefit	No costings of monetised benefits.	N/A	
Non-monetised benefits	Improves financial incentive to work part-time and income adequacy for low-income individuals and families.	Moderate impact.	

Adjustment to the Minimum Family Tax Credit – retrospective (full alignment)			
Additional costs of proposed approach			
Monetised cost to Crown	Cost of adjusting the 2020/21 MFTC threshold (retrospective).	$4.6 million in the 2020/21 tax year, $24.1 million over	High

		the forecast period.[16]	
Low-income working individuals and families receiving the MFTC	Some families may not gain as much when they receive a lump sum payment for the 2020/21 tax year that has already past (April to December 2020): - A lump sum payment could lead to debts for some people as the MFTC is chargeable income for some types of financial assistance paid under the Social Security Act 2018 - The MFTC is assessable income for Public Housing purposes, for assessing eligibility and calculating the rate of Income Related Rent.	Low impact.	Medium
Total Monetised Cost		$4.6 million in the 2020/21 tax year, $24.1 million over the forecast period.	
Non-monetised costs	Some families may be financially disadvantaged due to a lump sum payment for the retrospective increase.	Moderate impact.	

Adjustment to the Minimum Family Tax Credit – retrospective (full alignment)			
Expected benefits of proposed approach			
Low-income working individuals and families receiving the MFTC, and newly eligible	Incomes will increase as a result of retrospective increase. Improved financial incentives to work and receive the MFTC compared to working and receiving a benefit.	Moderate impact: Around 3,200 families receiving the MFTC in the 2020/21 tax year would gain an additional $32 for each week they	Medium

[16] The fiscal cost is ongoing as the MFTC rate will also account for the April 2020 main benefit rate increase in prospective changes.

		received the MFTC. The maximum possible increase for the year would be $1,664 with an estimated average MFTC increase of $1,280 per family.[17] Around 400 additional families would become newly eligible for the MFTC in the 2020/21 tax year.	
Total Monetised Benefit	No costings of monetised benefits.	N/A	
Non-monetised benefits	Improves financial incentive to work part-time and improves income adequacy for low-income individuals and families.	Moderate impact.	

Adjustment to the Minimum Family Tax Credit – prospective (partial alignment)			
Additional costs of proposed approach			
Monetised cost to Crown	Cost of adjusting the 2021/22 MFTC threshold (prospective).	$17 million over the forecast period (assuming retrospective adjustment goes ahead). (This is $34 million less than Option One).	High
Two-parent families on the MFTC	Reduced incentive to be in work and on the MFTC than working and receiving a benefit as some two-parent families may be financially better off working and receiving benefit.	Low impact: Around 10 percent of MFTC recipients are two-parent families.	Medium

[17] The newly eligible customers have incomes above the current threshold so the average gain for these customers will be less than $32 dollars a week.

Sole-parent families on the MFTC	Reduced incentive for sole-parent families to work more hours than the minimum required to qualify for the MFTC.	Moderate impact.	Medium
Total Monetised Cost		$17 million over the forecast period (assuming retrospective adjustment goes ahead).	
Non-monetised costs	For some families there may be reduced incentives to: - be working and receiving the MFTC than working and receiving a benefit - work greater hours than the minimum required.	Moderate impact.	

Adjustment to the Minimum Family Tax Credit – prospective (partial alignment)			
Expected benefits of proposed approach			
Low-income families on the MFTC	Incomes will increase as a result of partial increase. Improved financial incentives to work and receive the MFTC compared to working and receiving a benefit.	Moderate impact: Around 4,000 families are expected to receive the MFTC in the 2021/22 tax year. Of these, around 400 families would be newly eligible to the MFTC. These families would gain an additional $22 for each week they receive the MFTC. This would be a maximum annual MFTC increase of $1,144 per family.[18]	Medium

[18] The gain would be less for families that do not receive the MFTC for the full year.

Total Monetised Benefit	No costings of the total monetised benefits.	N/A	
Non-monetised benefits	Improves financial incentive to work and receive the MFTC and improves income adequacy for low-income individuals and families.	Moderate impact.	

5.3 What other impacts is this approach likely to have?

Better incentivising beneficiaries to engage in work through abatement threshold increases could also lead to positive impact on broader wellbeing, as being in suitable work is good for people's health and wellbeing (provided the work is safe, stable, suits people's circumstances and financially beneficial).

The expected benefits described in section 5.2 will depend on the interaction between different assistance types, the extent to which people undertake further work and the subsequent impact on their earned incomes. Also, there is a risk that the gains will be lost over time if abatement thresholds do not increase in future years.

Section 6: Implementation and operation

6.1 How will the new arrangements work in practice?

The Manifesto commitment specified an implementation date of 1 April 2021 for abatement threshold increases.

Legislative vehicle

Changes to abatement thresholds require an Order in Council and regulation amendment. Abatement thresholds for main benefits and New Zealand Superannuation Non-Qualifying Partner are set out in Schedule 2 of the Social Security Act 2018. An Order in Council under section 452(2)(c) of the Social Security Act 2018 is required to make the abatement threshold increases for main benefits and NZS for April 2021.

Abatement thresholds for Veteran's Pension Non-Qualifying Partner and Veteran's Pension (under 65) are set out separately in regulation 42A of the Veterans' Support Regulations 2014, which will also require amendment.

Changes to the MFTC threshold can be made by an Order in Council as set out in sections ME 1(4) and MF 7(1)(d) of the Income Tax Act 2007. However, an Order in Council is required by 1 December for changes to apply from 1 April the following year.

Therefore, adjustments to the 2020/21 and 2021/22 MFTC thresholds would need to be made via amendments to the Income Tax 2007.

Communication

A communications plan will be developed to ensure the changes are communicated to staff and the public in advance of implementation.

Transitional arrangements

A Transitional Assistance Payment (TAP), which is a temporary non-taxable payment, could be considered for the small number of people (around 79 people) who may be financially disadvantaged by the proposed abatement threshold increases on 1 April 2021.

6.2 What are the implementation risks?

Minimal implementation risks with the abatement threshold increases

Implementation risks for abatement thresholds are minimal. The changes will use existing administrative structures and will not require any new service design.

There is a potential for public confusion around the proposed increases, as this proposal overrides the four-year adjustments to the abatement thresholds secured through Budget 2019. A communications plan will be developed to ensure sufficient information is provided to both staff and the public through various platforms, including MSD's website.

Some implementation risks with the adjustments to Minimum Family Tax Credit

A partial increase to the 2021/22 MFTC threshold may cause confusion with some people as to which option they would be better off under. Some two-parent families may be better off working and receiving benefit than working and receiving the MFTC, but for one reason or another remain on the MFTC and receive less than what they may be entitled to. Material will be developed to ensure sufficient information about the MFTC adjustments are available to both staff and the public through various platforms, including IR's website.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Behavioural changes arising from abatement threshold increases can be monitored using administrative data

MSD will be able to use administrative data to monitor the trends in declared income before and after changes to abatement thresholds, including the trends for different subgroups (eg, Māori, Pacific people, sole parents, people with a health condition or disability).

An expected trend following the abatement threshold changes would be an increase in the level of income that clients declare to MSD, as a result of clients taking up extra work in response to the changes. There may also be a signalling effect (ie, changed behaviour) ahead of the changes.

Behavioural changes arising from adjustments to the Minimum Family Tax Credit can be monitored using administrative data

The effects of the MFTC threshold alignments can be monitored using data IR currently collects as part of administering the MFTC. This includes the number of MFTC recipients, the nature of those families, the amount of MFTC payments made, and MFTC recipient movement between the MFTC and the benefit. This administrative data will show what effect the MFTC alignment changes have on the up take of the credit, and the actual fiscal cost to the Government of the chosen settings.

7.2 When and how will the new arrangements be reviewed?

As part of the Welfare Overhaul work programme, MSD is working on developing a measure of a client's total income, and regularly reporting on this measure. Progression of this work will allow for reporting on this measure past 2021. The measure will allow MSD to analyse the longer term impact of this policy on client outcomes.

In December 2020, officials intend to provide advice to joint Ministers on a potential scope for a work programme to review WFF, which includes the MFTC. s 9(2)(f)(iv) [redacted] The WFF review is part of the broader welfare overhaul work programme and is expected to take at least 12 months. Any changes to WFF through legislative amendment would take even longer to implement.

It is noted that, subject to any change in Government policy on the alignment of the MFTC threshold to future changes to benefit rates or abatement settings, further reviews of the MFTC threshold will be required annually.